

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Alma	County Gratiot
Fiscal Year End June 30, 2006	Opinion Date November 3, 2006	Date Audit Report Submitted to State December 6, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

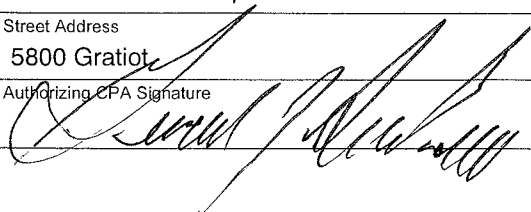
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None required	
Certified Public Accountant (Firm Name) The Rehmann Group		Telephone Number 989-799-9580	
Street Address 5800 Gratiot		City Saginaw	State MI
Zip 48605		License Number 1101007126	
Authorizing CPA Signature 		Printed Name Gerald Desloover	

City of Alma, Michigan
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006



Prepared by:
Paul T. Borle, Finance Director/Treasurer
Cynthia A. Michels- White, City Controller

City of Alma, Michigan
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

City Commission

Melvin Nyman	Mayor
Scott Moes	Vice Mayor
Donald Ayers	Commissioner
Lisa Comer	Commissioner
Rodys Dancer	Commissioner
Michael Legene	Commissioner
Greg Mapes	Commissioner

Other Officers and Officials

Phillip Moore	City Manager
Aeric Ripley	Assistant City Manager
Paul Borle	Finance Director/Treasurer
Cynthia Michels-White	City Controller
Brian Dancer	City Assessor
Bryan Dinwoody	Library Director
Barbara Gager	City Clerk
Hal Smith	Director of Code Enforcement
Randy Sumner	Transit Director
Ronald Turner	Director of Public Services
David Walsh	Director of Public Safety

City of Alma, Michigan
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

Table of Contents

	Page Number
 INTRODUCTION SECTION	
Title Page	1
List of City Commissioners and City Officials.....	3
Table of Contents.....	5
Letter of Transmittal	9
Certificate of Achievement for Excellence in Financial Reporting.....	13
Organizational Chart	15
 FINANCIAL SECTION	
Report of Independent Auditors	17
Management Discussion and Analysis	19
 Basic Financial Statements	
Statement of Net Assets	33
Statement of Activities.....	34
Balance Sheet – Governmental Funds	36
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	37
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.....	38
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds to the Statement of Activities	39
General Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual	40
Major Streets Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual	42
Alma Fire District Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual	43
Statement of Net Assets – Proprietary Funds.....	44
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds.....	46
Statement of Cash Flows – Proprietary Funds	48
Statement of Net Assets – Fiduciary Funds	50
Combining Statement of Net Assets – Component Units	52
Combining Statement of Activities – Component Units.....	53
Notes to Financial Statements	55
 Required Supplementary Information	
Required Supplementary Information – Municipal Employees Retirement System: Analysis Of Funding Progress	79

Combining and Individual Fund Financial Statements and Schedules

Page Number

Nonmajor Governmental Funds

Combining Balance Sheet.....	86
Combining Statement of Revenues, Expenditures and Changes in Fund Balance.....	90
Local Streets Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual.....	93
Housing Improvement Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual.....	94
Public Safety Employees Benefit Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual.....	95
Law Enforcement Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual.....	96
Alma Building Authority Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual.....	97
Heather/Warwick General Obligation Bond Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual.....	98
Heather/Warwick Special Assessment Bond Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual.....	99

Enterprise Funds

State Street Plaza Fund Schedule of Revenues, Expenses and Changes in Net Assets Budget to Actual.....	102
Transit Services Fund Schedule of Revenues, Expenses and Changes in Net Assets Budget to Actual.....	103
Wastewater Utility Fund Schedule of Revenues, Expenses and Changes in Net Assets Budget to Actual.....	104
Water Utility Fund Schedule of Revenues, Expenses and Changes in Net Assets Budget to Actual.....	105
Solid Waste Disposal Fund Schedule of Revenues, Expenses and Changes in Net Assets Budget to Actual.....	106

Internal Service Funds

Combining Statement of Net Assets.....	108
Combining Statement of Revenues, Expenses and Changes in Net Assets.....	109
Combining Statement of Cash Flows.....	110
Administrative Services Fund Schedule of Revenues, Expenses and Changes in Net Assets – Budget to Actual.....	111
Building and Grounds Maintenance Fund Schedule of Revenues, Expenses and Changes In Net Assets – Budget to Actual.....	112
Equipment Pool and Central Garage Fund Schedule of Revenues, Expenses and Changes In Net Assets – Budget to Actual.....	113

Agency Funds

Schedule of Changes in Assets and Liabilities.....	115
--	-----

Component Units

Statement of Net Assets and Governmental Fund Balance Sheet – Alma Downtown Development Authority	118
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes In Fund Balance – Alma Downtown Development Authority	119
Schedule of Revenues, Expenditures and Changes in Fund Balance – Alma Downtown Development Authority	120
Statement of Net Assets and Governmental Fund Balance Sheet – Local Development Finance Authority	121
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes In Fund Balance – Local Development Finance Authority	122
Schedule of Revenues, Expenditures and Changes in Fund Balance – Local Development Finance Authority	123
Statement of Net Assets – Proprietary Fund – Alma Public Library	124
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund – Alma Public Library	125
Statement of Cash Flows – Proprietary Fund - Alma Public Library	126

Joint Venture

Gratiot Community Airport Statement of Net Assets	128
Gratiot Community Airport Statement of Revenues, Expenses and Changes In Net Assets	129

Schedule of Indebtedness

Schedule of Bond and Note Indebtedness	133
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STATISTICAL SECTION

Changes in Net Assets	140
Net Assets by Component	142
Fund Balances of Governmental Funds	143
Changes in Fund Balances of Governmental Funds	144
General Governmental Revenues by Source	145
Governmental Activities Tax Revenue by Source	146
Assessed Value and Estimated Actual Value of Taxable Property	147
Property Tax Rates/Direct and Overlapping Debt	148
Principal Property Taxpayers	149
Property Tax Levies and Collections	150
Ratios of Outstanding Debt by Type	151
Ratios of General Bonded Debt Outstanding	152
Direct and Overlapping Governmental Activities Debt	153
Legal Debt Margin Information	154
Pledged Revenue Coverage	155
Demographic and Economic Statistics	156
Principal Employers	157
Full-time Equivalent City Government Employees by Fund	158
Operating Indicators by Function	159
Capital Asset Statistics by Function	161

INTERNAL CONTROL AND COMPLIANCE

Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Governmental Auditing Standards.....167

November 10, 2006

Honorable Mayor and Alma City Commission:

Michigan State law and the Charter of the City of Alma require that a complete set of audited financial statements be published within six months of the close of each fiscal year. It is with great pleasure that we present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006.

This report has been prepared by the staff of the City of Alma and its management takes full responsibility for the completeness and accuracy for all statements, schedules, notes and analysis. To provide a reasonable basis for making these representations, management has implemented a system of internal controls to protect City assets from theft, loss, or misuse and to compile reliable information for the presentation of our financial statements in conformity with generally accepted accounting principles. The cost of internal controls should not outweigh their benefit; therefore, internal controls have been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Rehmann Group has issued an unqualified opinion on the City of Alma financial statements for the year ended June 30, 2006. The independent auditor's report is located at the front of the financial section of this report. The audit was designed to meet the requirements of the federal Single Audit Act of 1984, as amended and related OMB Circular A-133. The auditors report on the fair presentation of the financial statements, the internal controls, and compliance with legal requirements.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

The Reporting Entity

The Alma area was settled in 1853 along the banks of the Pine River in the center of the lower peninsula of Michigan. In 1872, Alma became a village and in 1905 incorporated as a home-rule city. With a population of 9,275, City of Alma is the primary government. In addition to the primary government, this financial report also includes four component units, and a joint venture: Alma Public Library, Alma Housing Commission, Alma Downtown Development Authority, Alma Local Development Financing Authority, and Gratiot Community Airport- a joint venture with Gratiot County.

Budgeting and Long-Term Financial Planning

As part of the City's financial planning process, the staff prepares an annual operating budget and six year capital improvement plan (CIP) for City Commission review and adoption. These two documents serve to address the City's strategy for maintaining and improving the health and well being of the community. The budget document provides a financial framework for planning and control, as well as defining the Commission's vision for the future. The CIP details future major capital items and related financial resources which will be required to implement the Commission's long term vision.

Unreserved, undesignated fund balance in the general fund (71 percent of total general fund revenues) falls well above the policy guidelines set by the City Commission for budgetary and planning purposes. The current general fund balance would fund approximately 300 days of operations. In the last two years, long term debt has gone up 541%. It has been necessary to issue bonds to finance recent and future construction and improvements. The voters approved an additional millage to fund the repayment of \$3,500,000 of general obligation bonds issued to finance renovations to Alma Public Library. Utility revenue streams will be used to fund repayment of \$5,500,000 of general obligation bonds issued to finance water and sewer improvements. In July of 2006, the City issued an additional \$985,000 in bonds; of which \$485,000 are special assessment bonds. No further debt issuances are foreseen for the near future.

The budget process normally begins in January with a City Commission goals setting session. The City Manager is required by charter to present a budget to the City Commission by April 20th. After several work sessions and public hearings, the City Commission adopts the City's budget at the end of May and sets the property tax millage for the new fiscal year. After the close of the fiscal year, the CAFR is prepared to report on the financial condition of the City. Included in the report are budget to actual comparisons of revenues and expenditures. As in prior years, budget to actual comparisons present the original budget and the final budget. Interested citizens are invited to participate in the budget planning process at the goals setting session, work sessions and public hearings.

Economic Condition and Outlook

In the 2006 fiscal year Sawruk Management expressed interest in the City of Alma as the site for development of an energy research park. While still in the investigative and planning stage, this is an exciting prospect for the City. The development, in its final vision would bring billions of dollars of investment to the Alma area. There is a purchase agreement on a portion of the Valaro site as a part of this project.

The State of Michigan's economy remains a concern for the City's financial well-being. As the State continues to struggle to overcome budget deficits, state revenue sharing, which is the second largest revenue source for the City's General Fund, is always in jeopardy of being cut.

A 15,000 square foot addition and renovation to the library began in FY 2006. The citizens of Alma and the surrounding communities have shown their support for this project with their affirmative votes and donation of over \$300,000 in private contributions.

The extension of Pine Avenue to Cheesman Road has been completed. Extending Pine Avenue opens more land for residential development. The new middle school has been constructed on the extension.

The plans to relocate Alma Iron & Metal Company and the implementation of the Downtown Waterfront Redevelopment Project are continuing to move forward. The riverfront location will provide the City with another opportunity for potential development.

The Gemstone housing development is progressing. Bonds were sold in July, 2006 to fund the necessary infrastructure for 147 building sites.

There are several other construction projects in various stages of construction on Warwick Drive. Walgreen's is in the process of constructing a new retail outlet at the corner of Wright and Warwick. The Elk's has constructed a new facility at 610 Warwick Drive. There is also a plan for a new medical office on Warwick and a new strip mall planned for the Kmart out lot which will house four to five retail outlets.

Gratiot Community Hospital is constructing a \$60 million expansion and renovation. It will take three years to complete that project. The project includes a new emergency department, a five story bed tower and other renovations to existing space.

Fiscal Year 2006 Initiatives

In spite of the challenges on the revenues side, the City of Alma has had another successful year in providing quality services to our citizens. The foresight of the City Commission in building a healthy fund balance has permitted the City to continue to invest in the infrastructure and capital needs of the City. During FY2006, the City was able to accomplish several significant improvements:

- Completed construction of new aeration lagoons for the waste water treatment plant.
- Completed extension of Pine Avenue, including water main and sanitary sewer, from its current terminus to Cheesman Road.
- Progressed on the community's long-standing goal to relocate Alma Iron & Metal (AIM) which will enable possible development along the river front, which is being provided up to \$900,000 by UDS/Total through a Supplementary Environmental Project (SEP).
- Accepted delivery of a 75' Quint fire truck in August of 2006.

- Completed conversion of Superior Street back to two-way traffic.
- Completed construction of a taxiway from terminal taxiway to east end of runway at Gratiot Community Airport.

Future Major Initiatives

In FY2006, the City laid the groundwork for several future plans and developments. Many of these projects have been highlighted by the City Commission in prior year's goal setting sessions:

- Continue implementation of the City's new Master Plan, which provides the blueprint for future development.
- Complete construction of a 3.5 million dollar addition to Alma Public Library.
- Begin construction of a new Transit Center and 120 ft. radio tower using Federal and State grant money.
- Begin engineering for construction of a new street at the proposed Transit Center site. This would allow development of the riverfront property behind the facility.
- Street rehabilitation on Hannah, Grace and Grassmere and watermain replacement on Hannah.
- Complete construction of transmission lines from wells 2A & 8 to the water treatment plant to enable the City to move from the use of primarily surface water to the use of primarily ground water at its water treatment plant.

Awards

The Government Finance Officers Association of the United States and Canada (G.F.O.A.) awarded the Certificate of Achievement for Excellence in Financial Reporting to the City of Alma for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. This was the fourteenth consecutive year that the City of Alma achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

In addition, the City of Alma also received the GFOA's Distinguished Budget Presentation Award for its annual budget document relating to the fiscal year end June 30, 2006. It was the fifth year that award was given to the City of Alma. In order to qualify for the Distinguished Budget Presentation award, the government's budget document has to be judged proficient as a policy document, a financial plan, an operations guide and a communication device.

Acknowledgments

The preparation of this report would not have been possible without the dedication of the entire administrative and finance staff. The staff of the Finance Department in particular has spent many hours working on this project. Cynthia Michels-White, City Controller, deserves special thanks for the completion of this year's financial report.

In closing, the City of Alma is looking forward to prosperity and growth for its citizens as well as its businesses and industries. The leadership and support of the City Commission remain vital to that goal.

Sincerely,

Sincerely,

Phillip J. Moore
City Manager

Paul T. Borle
Finance Director/Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Alma,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



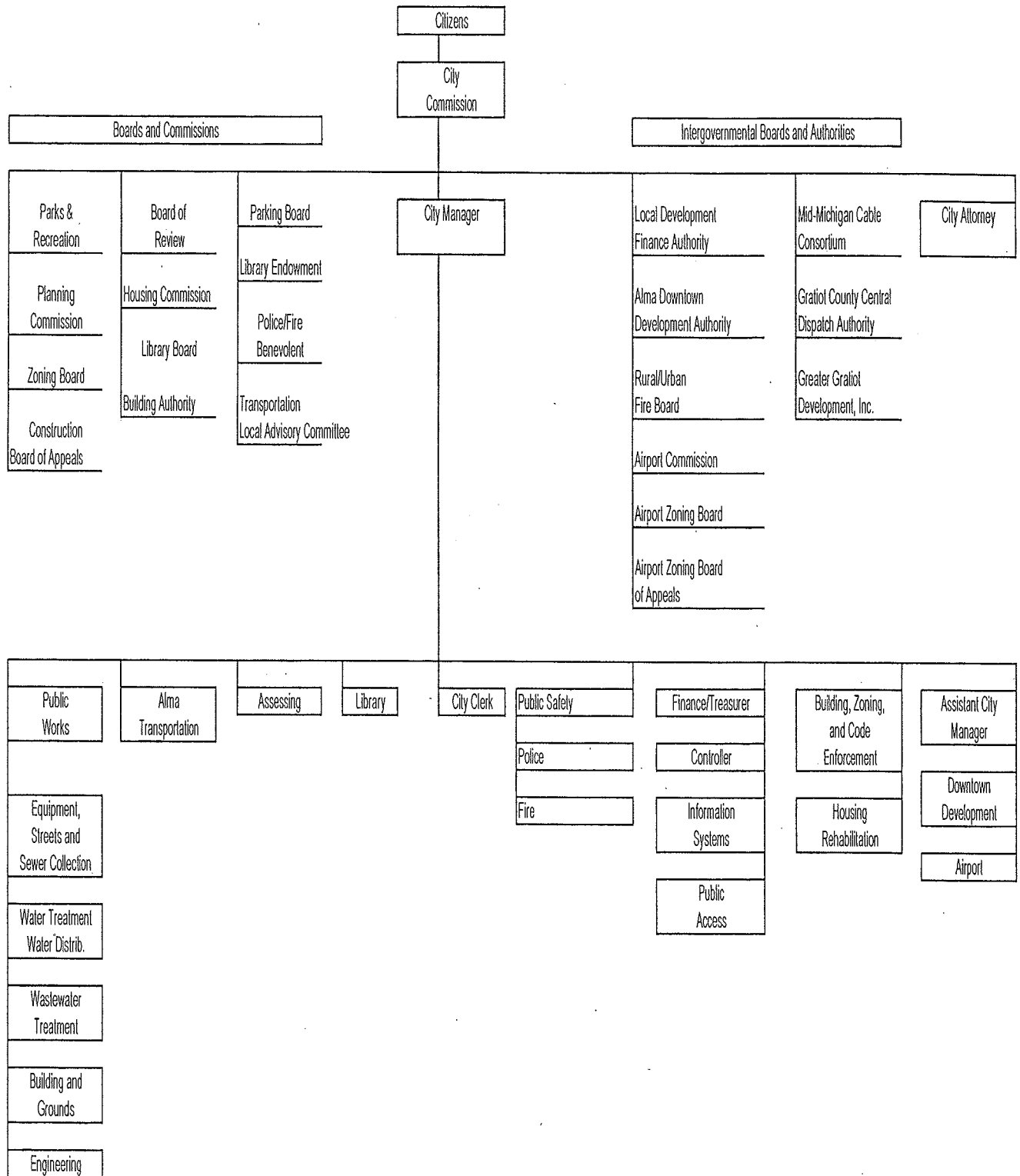
Carla E. Perry

President

Jeffrey R. Emen

Executive Director

City of Alma Organizational Chart





INDEPENDENT AUDITORS' REPORT

November 3, 2006

City Council
City of Alma
Alma, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Alma, Michigan* as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *City of Alma, Michigan's* management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Alma Housing Commission, which represents 45%, 75% and 74%, respectively, of the assets, net assets and operating revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Alma Housing Commission, is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the remaining fund information of the *City of Alma, Michigan*, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons of the General Fund, Major Streets Fund and Alma Fire District Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006, on our consideration of the *City of Alma, Michigan's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 19-30 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Alma, Michigan's* basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rehmann Johnson

City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

As management of the City of Alma, we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City of Alma for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letter of transmittal.

1) Financial Highlights

- a) The Net Assets of the City of Alma increased by \$1,917,344 over the fiscal year ending June 30, 2005.
- b) The assets of the City of Alma exceeded its liabilities at the close of fiscal year 2006 by \$31,724,001 (net assets). Of this amount \$12,013,175 is unrestricted or available to meet the City's ongoing obligations to citizens and creditors.
- c) As of the close of the current fiscal year, the City of Alma's governmental funds reported combined ending fund balances of \$5,844,307, a decrease of \$292,382 from fiscal year 2005. Approximately 76 percent of this total amount, \$4,480,252, is unreserved, undesignated and available for spending at the government's discretion.
- d) While the City's governmental funds combined fund balances decreased in fiscal year 2006; the governmental activities combined net assets increased by \$1,668,978 to \$22,789,488.
- e) The decrease in Fund Balance and the increase in Net Assets in the governmental activities are the result of capital expenditures on infrastructure. Major construction includes the extension of Pine Avenue and the conversion of Superior Street from one-way to two-way traffic.
- f) The General Fund spent \$3,729 of its fund balance this year. Year end fund balance for the General Fund was \$3,102,104.
- g) At the end of fiscal year 2006, unreserved, undesignated fund balance for the general fund was \$3,059,914, or 83 percent of total 2006 fiscal year general fund expenditures (excluding transfers to other funds).
- h) The City of Alma's total bonded debt increased by \$2,500,000 (37%) during fiscal year 2006. This increase represents the issuance of \$2,500,000 of general obligation bonds financing construction of Well #8 well house and transmission line to eliminate the use of surface water in the water treatment process.
- i) Net Assets of business-type activities increased \$248,366.
- j) Total expenses for governmental activities totaled \$4,962,035.
- k) Total expenses for business-type activities totaled \$3,203,254.

2) Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Alma's basic financial statements. Basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information.

Government-wide Financial Statements

The government-wide financial statements summarize all City funds into one statement using the full accrual method of accounting. This method of accounting is similar to private sector for profit accounting.

Statement of Net Assets

The *Statement of Net Assets* provides information on assets, liabilities and the difference between the two reported as net assets. Over time, increases and decreases in net assets can serve as a barometer of financial health. A trend of increasing net assets is viewed as a sign of improving condition.

Statement of Activities

The *Statement of Activities* presents revenues and expenses which reflect the underlying cause of the change in net assets. All changes in net assets are reported as soon as the underlying event to the change occurs, regardless of the timing of related cash flows. This means the statement includes depreciation on the assets. The statement does not report any capital projects. Capital projects are reported on the *Statement of Net Assets*.

Both of the government-wide financial statements distinguish between activities which are principally supported by taxes and intergovernmental revenues (governmental activities) from activities which are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

The government-wide financial statements include not only the City of Alma itself, known as the primary government, but also four legally separate component units for which the City of Alma has financial responsibility: Downtown Development Authority, Local Development Financing Authority, Alma Public Library and Alma Housing Commission. More information about the component units can be found in the Notes and the schedules behind the notes.

Fund Financial Statements

Traditional governmental accounting was focused on the individual funds. The funds have not disappeared in the new reporting model. As has historically been the case, a fund is defined as a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are used to ensure compliance with finance-related legal or regulatory compliance. Funds are classified as either governmental funds, proprietary funds or fiduciary funds.

i) **Governmental Funds**

Governmental funds are essentially the same as the governmental activities with the exception that internal services are included in governmental activities but are not governmental funds. These funds are included because they mainly benefit the governmental activities. Governmental funds use a modified accrual basis of accounting which focuses on near-term inflows and outflows and balances of expendable resources. In the governmental fund statements, capital outlay and debt principal are reported on the *Statement of Revenues, Expenditures and Changes in Fund Balance*, and depreciation and accrued vacation are not recorded. The *Balance Sheet* for governmental funds does not include any capital assets or long-term debt.

The City of Alma maintains seventeen individual governmental funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenditures. Major funds are presented in separate columns. This allows the reader to see more detailed activity of the major funds. The General Fund, Major Street Fund and Alma District Fire Department are considered major funds.

In the basic financial statements, non-major funds are consolidated into one column. These are smaller, less active funds. Individual fund data for non-major funds can be found after the Notes.

ii) **Proprietary Funds**

Proprietary funds use a full accrual method of accounting for both government-wide statements and fund level statements. There are two types of proprietary funds. Enterprise funds are used to report business like activities. With the exception, of the Transit System, service fees are expected to recover the cost of providing the service. The City of Alma uses enterprise funds for water, wastewater, solid waste, transit and State Street Plaza. Internal service funds are used to accumulate and allocate the cost of services to other City activities or functions. The City of Alma has three internal service funds. They are Building and Grounds, Equipment Pool and Central Garage, and Administrative Services.

All five of the City's enterprise funds are considered major funds and presented separately in the proprietary fund financial statements. The three internal service funds are aggregated into a single column in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements after the notes.

iii) **Fiduciary Fund**

The fiduciary fund is used to account for resources held for the benefit of other parties outside of the City of Alma. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available for the use of the City of Alma.

Notes to the Financial Statements

The notes provide additional information integral to understanding the data provided in the financial statements.

City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

3) Government-wide Financial Analysis

a) Net Assets

The Statement of Net Assets provides an overview of the City's assets, liabilities and net assets. As mentioned above, over time, this can provide a good indicator of the City's fiscal health. Below is a summarized version of the Statement of Net Assets:

Table A-1						
City of Alma, Michigan's Net Assets						
(in millions of dollars)						
	Governmental Activities		Business-type Activities		Total	
	FY2006	FY2005	FY2006	FY2005	FY2006	FY2005
Current and other assets	\$8.0	\$ 8.9	\$ 5.7	\$ 5.5	\$ 13.7	\$ 14.4
Capital assets	16.2	14.0	8.4	5.8	24.6	19.8
Total assets	24.2	22.9	14.1	11.3	38.3	34.2
Long-term debt	0.5	0.6	4.5	2.2	5.0	2.8
Other liabilities	0.9	1.3	0.7	0.4	1.6	1.7
Total liabilities	1.4	1.9	5.2	2.6	6.6	4.5
Net assets						
Invested in capital assets, net of related debt	15.1	13.2	3.8	3.5	18.9	16.7
Restricted	0.9	1.2	0.0	0.2	0.9	1.4
Unrestricted	6.8	6.6	5.1	5.0	11.9	11.6
Total net assets	\$ 22.8	\$ 21.0	\$ 8.9	\$ 8.7	\$ 31.7	\$ 29.7

The total net assets of the City are \$31,724,001. However, \$24,574,992 represents investment in capital assets including infrastructure. The single largest item in capital assets is the investment in streets. The book value for streets at the end of FY2006 was \$10.0 million. Of the more liquid assets, \$880,253 is restricted. The City has \$12,013,175 in unrestricted net assets. Total net assets increased by \$1,917,344 in FY2006.

b) Changes in Net Assets

i) Governmental Activities Highlights

Table A-2						
Changes in City of Alma, Michigan's Net Assets						
(in millions of dollars)						
	Governmental Activities		Business-type Activities		Total	
	FY2006	FY2005	FY2006	FY2005	FY2006	FY2005
Revenues						
Program revenues						
Charges for services	\$ 1.3	\$ 0.6	\$ 2.7	\$ 2.3	\$ 4.0	\$ 2.9
Grants and contributions	1.1	1.3	0.4	0.5	1.5	1.8
General revenues						
Property taxes	2.5	2.4	0.1	0.1	2.6	2.5
Federal and state contributions	1.2	1.2	-	-	1.2	1.2
Investment earnings	0.3	0.2	0.2	0.1	0.5	0.3
Other	0.2	0.1	-	-	0.2	0.1

City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

Total revenues	\$ 6.6	\$ 5.8		\$ 3.4	\$ 3.0		\$ 10.0	\$ 8.8
Expenses								
Community development	\$ 0.5	\$ 0.5		-	-		\$ 0.5	\$ 0.5
Community safety	1.9	1.9		-	-		1.9	1.9
Property maintenance	0.4	0.4		-	-		0.4	0.4
Transportation	1.1	1.3		-	-		1.1	1.3
Recreation and cultural services	0.6	0.6		-	-		0.6	0.6
Legislative services	0.1	0.1		-	-		0.1	0.1
Administrative	0.3	0.3		-	-		0.3	0.3
Interest on long-term debt	0.0	0.1		-	-		0.0	0.1
State Street Plaza				0.1	0.1		0.1	0.1
Transit				0.6	0.6		0.6	0.6
Wastewater				1.0	0.9		1.0	0.9
Water				1.0	0.9		1.0	0.9
Solid Waste				0.5	0.4		0.5	0.4
Total expenses	4.9	5.2		3.2	2.9		8.1	8.1
Increase in net assets	1.7	0.5		0.2	0.1		1.9	0.6
Ending net assets	\$ 22.8	\$ 21.0		\$ 8.9	\$ 8.7		\$ 31.7	\$ 29.7

(1) Revenue sources and changes

Revenue for all sources increased in 2006 by \$1,345,110 or 15%. This consisted of an increase of \$852,848 or 14% in governmental funds and \$492,262 or 16% in business-type activities. Revenue from all sources totaled \$10,082,633 of which \$6,631,013 was from governmental activities and \$3,451,620 was from business-type activities. The governmental activities received 37% or \$2,462,946 from property taxes. Another 17% or \$1,165,766 was from unrestricted state shared revenue. Twenty percent (20%) or \$1,366,340 of governmental activities was funded through charges for services. The increase in charges for services is related to SEP payments received on the Valaro agreement for riverfront development, maintenance costs received for the turn back of Superior Street and the return of the Community Center from Alma Public Schools to the City of Alma.

Business type activities received 79% of their revenue from charges for services. Most of the non-operating revenue is received by the Transit Fund in the form of grants and a local millage.

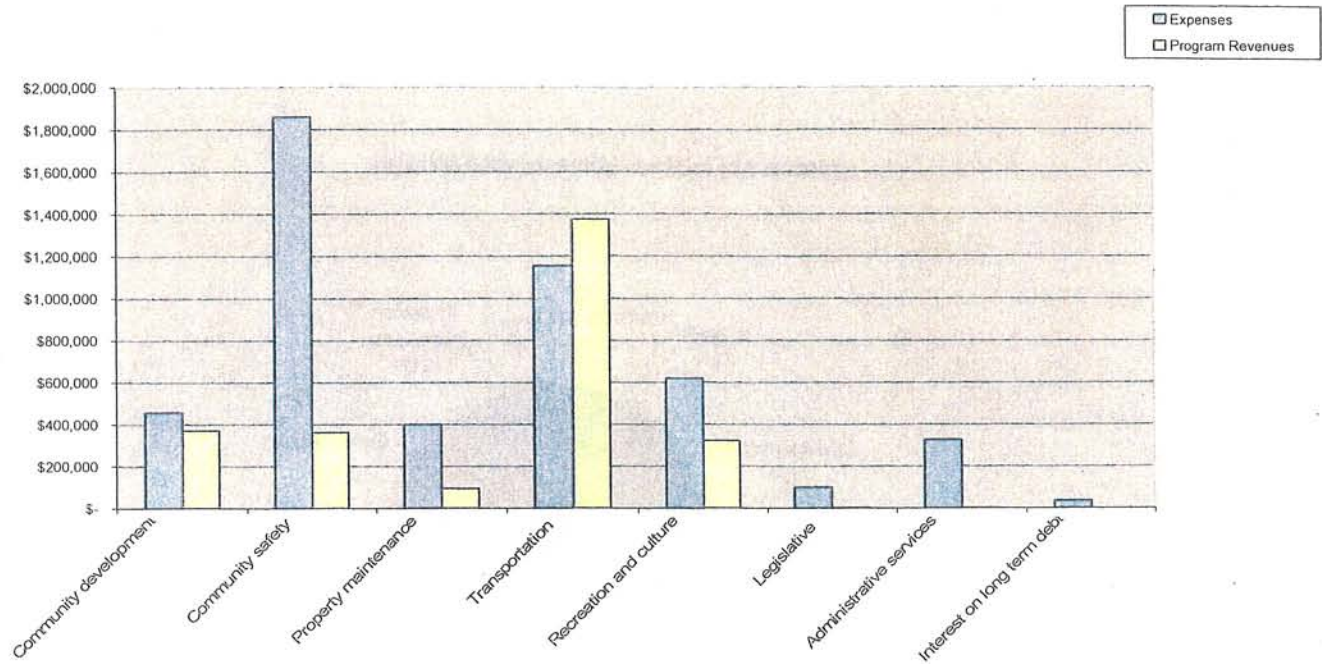
(2) Expense overview

(a) Overall cost

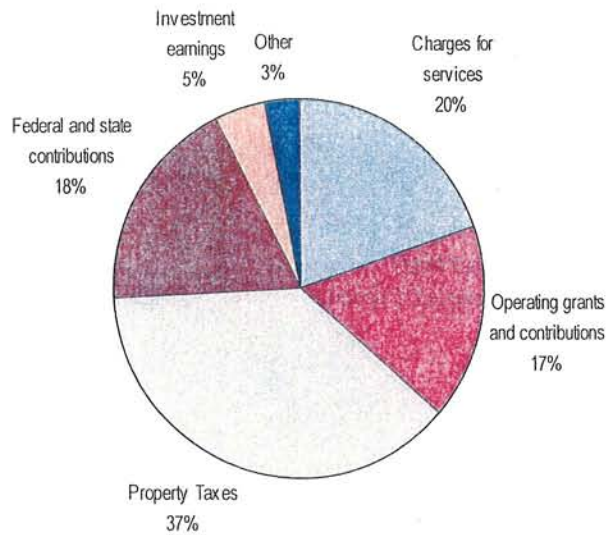
Using a full accrual basis of accounting, the City of Alma spent \$4,962,035 on governmental activities. From the government-wide perspective, the City depreciates capital assets including infrastructure such as streets and sidewalks. The expenses do not include new capital assets such as rehabilitated streets or new sidewalks. The City spent \$1,861,105 on public safety or 37% of the total expenses. Transportation was the next largest item with \$1,155,820 or 23% of the total expenses. In addition, the City of Alma spent \$2,111,928 on infrastructure improvements that appear in the *Statement of the Net Assets*.

City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

Expenses and Program Revenues - Governmental Activities

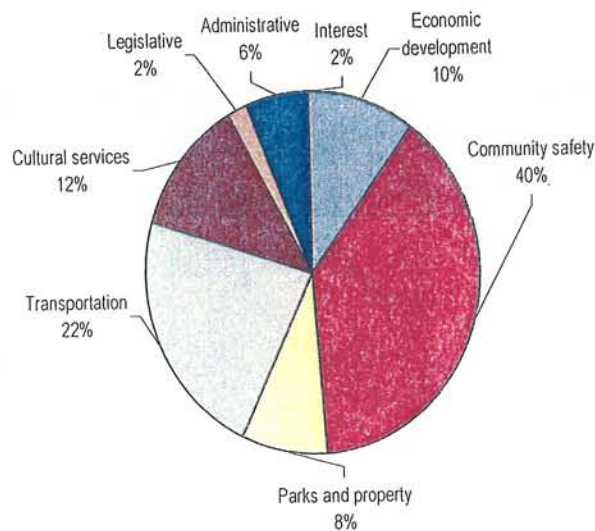


Revenue by Source - Governmental Activities



City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

Expenses by Function - Governmental Activities



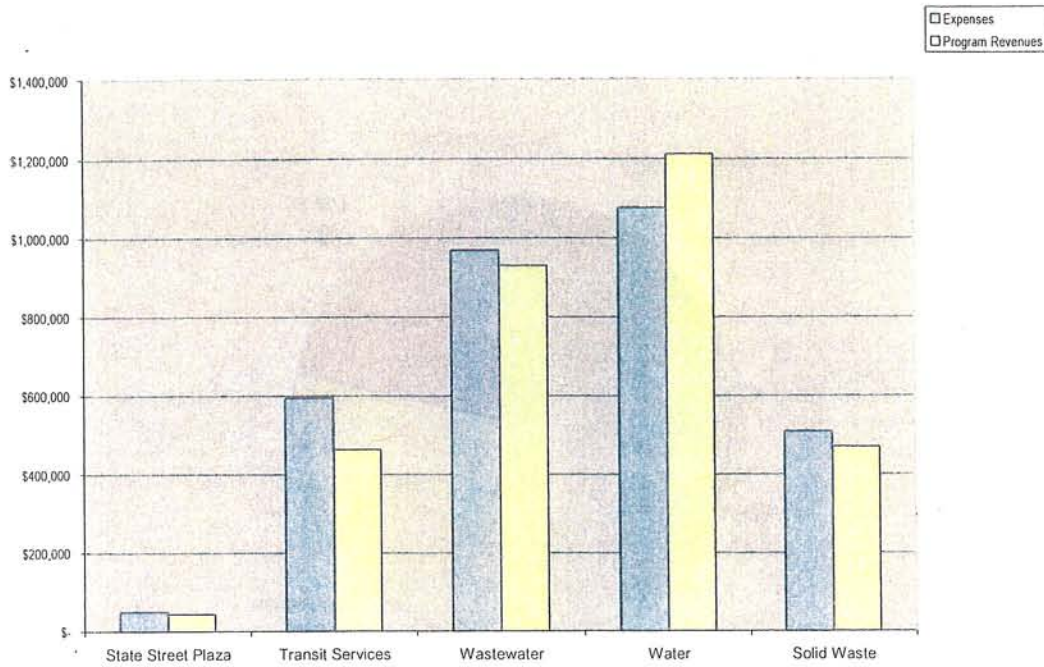
ii) Business-type Activities – Highlights

The business-type activities had an increase in net assets of \$328,653, reporting revenues of \$3,451,620. The largest source of revenue is charges for services of \$2,733,886 or 88% of revenues for business – type activities. The charges for services can be further disaggregated as follows:

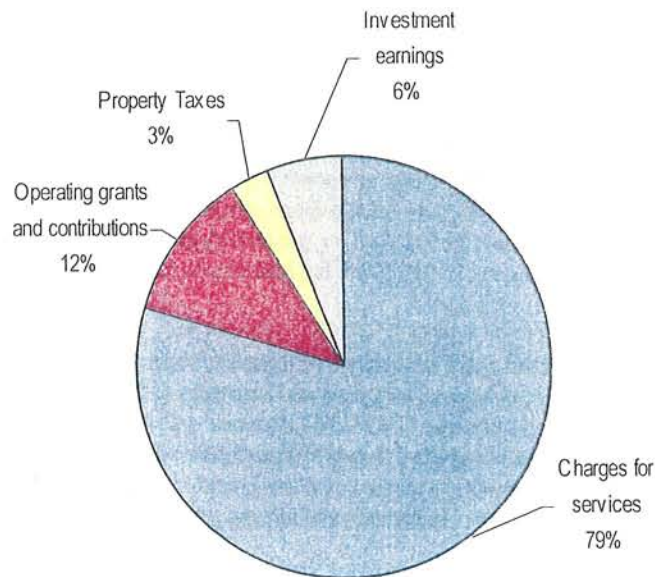
• Wastewater	\$ 930,414
• Water	1,211,936
• Solid Waste	469,948
• Transit	77,730
• State Street Plaza	<u>43,858</u>
• Total Charges for Services	<u>\$ 2,733,886</u>

City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

Expenses and Program Revenues - Business-type Activities



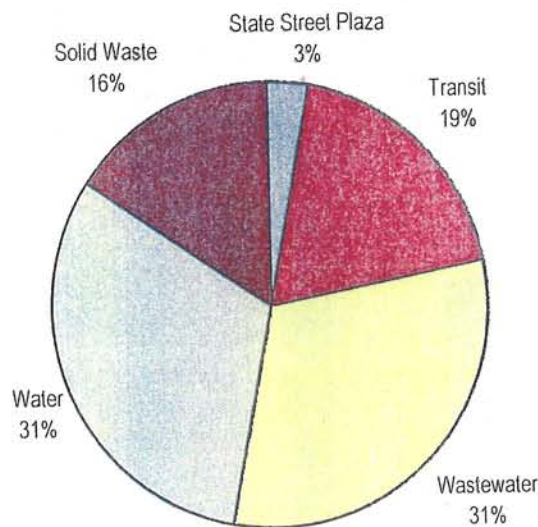
Revenues by Source - Business-type Activities



Water and wastewater are the largest business-type activities with expenses of \$1,077,069 for water and \$969,814 for waste water.

City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

Expenses by Function - Business-type Activities



(1) Water

The Water Utility is a very capital intensive activity. With the implementation of new regulatory requirements, the City found it necessary to find a new source of water for the water treatment plant. Under the new regulations, the City must either find a source of ground water to eliminate the surface water or the water filtration plant must be rebuilt to more intensively treat the water. An engineering study recommended that the City look for additional ground water sources, and found an aquifer just south of the Pine River. This will require transmission of the raw water supply under the river to the water treatment plant. The City Commission passed a resolution to issue \$2.5 million in general obligation bonds to finance this project. With operating revenues of \$1,213,758, the fund had an increase of \$203,398 in net assets.

(2) Wastewater

The Wastewater Utility completed construction of an aeration basin which was funded with about \$1 million of wastewater fund cash reserves and \$2 million in general obligation bonds. With operating revenues of \$930,414, the fund had an increase of \$750 in net assets. The fund has sufficient reserves to meet its cash flow needs for the next few years. The City has struggled with pipeline and plant capacity issues due to infiltration. The next big project will be elimination of areas of major infiltration during significant rainstorms.

(3) Dial-A-Ride-Transit System

The City runs a demand response bus system. The system is funded by a combination of bus fares, property taxes and grants from the state and federal governments. Major capital assets are usually purchased by the state. The Transit Fund has a healthy unrestricted net asset position with \$920,769 in cash and investments. The biggest challenge facing the transit system is a decline of the reimbursement rate of operating grants. The City elected officials and management have been working with our elected officials in Lansing to modify the reimbursement formula.

City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

(4) Solid Waste

The City collects solid waste, recyclables, and yard waste at the curbside for residential property. The service is funded through user fees. The City entered into a five year contract with the current waste hauler in FY2003. With revenues of \$482,639 and expenses of \$520,223, net assets of the fund have declined to \$388,044. The increase in expenses is due to increases in the cost of the yard waste program.

(5) State Street Plaza

The City owns a complex of offices on State Street. The fund has \$1,009,580 in net assets. Revenue for the year totaled \$69,721, 37% of which was investment income. Expenses totaled \$51,652. The fund is in healthy financial condition with few financial fluctuations. The former MESOC office is currently the temporary home of the Alma Public Library.

4) General Fund and Major Governmental Fund Analysis

(1) General Fund

During the year, there was a decrease in General Fund appropriations between originally adopted and final amended budget. The majority of the decrease is related to expected expenditures for the Downtown Riverfront Development. The project did not progress as anticipated and certain expenditures will take place next year. General fund completed the year with \$4,266,493 in revenues; a \$504,735 increase from the previous year. Over half of the increase relates to a \$260,000 revenue recorded when the Alma Community Center was donated back to the City of Alma. This also relates to a budget deficit created when the expenditure for this building was recorded. The \$3,664,162 in expenditures was a 3.2 % increase from the prior year. Net transfers to other funds were \$626,060. The fund balance decreased by \$3,729. Interest rates have gone up, producing higher investment yields in FY2006. Overall, General Fund recorded \$206,133 in revenues over the budgeted amount and \$175,035 in expenditures over the budgeted amount. The majority of the amount over budget is related to the return of the Community Center from the Alma Public Schools.

(2) Major Street Fund

The Major Street fund expended \$443,110 on major street maintenance and transferred an additional \$80,000 to Local Street fund. The transfer funded the majority of capital improvements made to Luce Court. Major Street fund balance increased by \$179,773. The Pine Avenue Extension project and the Superior Street One-Way Conversion project were both completed in 2006.

(3) Alma Fire District Fund

The Alma District Fire Department Fund took delivery of a new 75" Quint Fire Truck in FY2006. The fire district finished the year with a \$62,399 decrease in fund balance. Fund balance was accumulated in prior years to fund a portion of the Quint Fire Truck.

5) Capital Assets and Debt Administration

a) Capital assets

i) Summary of capital assets

The City of Alma has \$24,077,292 invested in capital assets net of depreciation. Capital assets include all tangible assets that exceed \$1,500 in value and have an expected useful life of greater than one year. In addition to the primary government the component units have \$3,768,251 invested in capital assets. Capital assets include: land, land improvements, streets, sidewalks, buildings, equipment and utility systems such as water lines and sewer lines. The City uses straight line depreciation for all depreciable assets. In FY2006, net capital assets increased by \$1,610,680 in governmental activities and \$2,603,137 in business-type activities.

City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

Some of the major capital activities during the year include:

- Extension of Pine Avenue to Cheesman Road.
- Conversion of Superior Street to two-way traffic.
- Construction of a new aeration basin at the wastewater treatment plant..

Table A-3						
City of Alma's Capital Assets						
(in millions of dollars)						
	Governmental Activities		Business-type Activities		Total	
	FY2006	FY2005	FY2006	FY2005	FY2006	FY2005
Land	\$ 1.5	\$ 1.4	\$ 0.2	\$ 0.2	\$ 1.7	\$ 1.6
Construction in Progress	0.2	0.5	0.9	1.2	1.1	1.7
Land improvement	1.1	1.1	0.2	0.2	1.3	1.3
Streets	16.3	15.2	0.0	0.0	16.3	14.7
Sidewalks	1.0	1.0	0.0	0.0	1.0	1.0
Buildings	2.3	2.0	7.7	4.7	10.0	6.7
Equipment	4.7	4.1	2.0	2.0	6.7	6.1
Utility systems	0.0	0.0	7.3	7.1	7.3	7.1
Accumulated Depreciation	(11.5)	(10.8)	(9.9)	(9.6)	(21.4)	(20.4)
Total	\$ 15.6	\$ 14.0	\$ 8.4	\$ 5.8	\$ 24.0	\$ 19.8

ii) Discussion of future plans

Each year the City publishes a 6-year Capital Improvement Plan (CIP). The CIP lists and discusses all major capital items that the City Commission and staff envision will be needed over the next six years.

The major projects for the next two years include:

- New well system for the water plant
- Infrastructure for Gemstone Development
- Moving Alma Iron and Metal off the riverfront
- New facility for the Transit system
- Infrastructure for Transit facility and residential development
- Completing the river walkway
- Expanding and renovating Alma Public Library
- Connecting the Fred Meijer Rails-to-Trails pathway to Alma

b) More detailed information about changes in capital assets can be found in Note 5 of the footnotes.

6) Debt

a) Summary of debt

The City of Alma had \$8,675,000 of debt outstanding as of June 30, 2006. During the fiscal year 2006, the City issued \$2,500,000 general obligation bonds for Well #8 and the transmission line to the water treatment plant. Of the outstanding debt, \$8,045,000 was general obligation bonded debt. The City has pledged its full faith and credit to back \$225,000 of special assessment debt. The Water Fund has pledged its revenue stream for \$270,000 of revenue bonds and the City has \$135,000 of installment purchase contracts. In 2005, Standard and Poors issued a BBB+ rating for The City of Alma's general obligation debt.

City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

Table A-4						
City of Alma, Michigan						
Outstanding Debt						
(In thousands of dollars)						
	Governmental Activities		Business-type Activities		Total	
	FY2006	FY2005	FY2006	FY2005	FY2006	FY2005
General obligation bonds	\$ 3,615	\$ 3,810	\$ 4,430	\$ 2,000	\$ 8,045	\$ 5,810
Special assessment debt with governmental commitment	225	300	-	-	225	300
Purchase contracts	135	175	-	-	135	175
Revenue bonds	-	-	270	330	270	330
Total	\$ 3,975	\$ 4,285	\$ 4,700	\$ 2,330	\$ 8,675	\$ 6,615

The City of Alma issued special assessment bonds and general obligation bonds to fund the infrastructure related to the Gemstone housing development in July, 2006. The Governmental Activities column includes General Obligation Bonds issued for an expansion and renovation to the Alma Public Library. The City of Alma has pledged full faith and credit on this obligation.

- b) In the footnotes more detailed information on debt and other obligations can be found. Also, a complete schedule of debt repayments until maturity.

7) Economic Forecast

- a) The City of Alma has three main sources of revenue. These include property taxes, utility charges, and state shared revenue. The economic forecast for the community is dependent on these three revenues. Each main revenue source is discussed and forecast below.

i) Tax Base

With the closure of the refinery in 1998, and Oxford automotive in December 2004, the change in taxable value and state equalized value of the City has been closely tracked. As the refinery was dismantled, the refinery's property value was reduced accordingly. The only remaining value is the land value and the equipment being used to remediate the environmental problems. The following table shows property values for the past four years as well as the property valuation that will be used in the FY2006 property tax calculations. State equalized value is the Assessor's estimate of 50% of market value. Property taxes are calculated on taxable value. Taxable value growth is capped, by state constitution, to 5% or the rate of inflation which ever is less. In the year when property sells, the taxable value becomes uncapped and equal to the state equalized value. In the upcoming fiscal year, the taxable value increases by three percent.

State Equalized Value				
Fiscal Year	Real	Personal	IFT	Total
2002	\$117,932,300	\$34,405,100	\$18,468,700	\$170,806,100
2003	121,002,500	28,094,200	16,274,500	165,371,200
2004	128,574,900	29,419,000	13,767,700	171,761,600
2005	136,101,800	24,759,600	11,035,000	171,896,400
2006	139,790,300	24,426,900	7,805,700	172,022,900

City of Alma, Michigan
Management Discussion and Analysis
June 30, 2006

Fiscal Year	Taxable Value			
	Real	Personal	IFT	Total
2002	\$100,252,751	\$34,403,883	\$18,468,700	\$153,590,956
2003	103,755,637	28,094,122	16,274,500	148,124,259
2004	107,741,698	29,419,000	13,767,000	150,928,398
2005	114,136,528	24,759,600	11,035,000	149,931,128
2006	117,272,079	24,426,900	7,805,700	141,698,979

ii) State Shared Revenue

State shared revenue is the second largest source of revenue for the General Fund. State shared revenue is made of two components. The constitutional component is 15% of the 6% gross collections of the state sales tax. This portion can not be adjusted by the legislature. The statutory component is 21.3% of the 6% gross collections of the state sales tax. This portion can be adjusted by the state legislature. In both components, the overall distribution is dependant on the collection of state sales tax. When the economy slides, the revenue stream goes down. When the economy and sales pick up, our revenues increase. The City of Alma's General Fund is very dependent on the overall State of Michigan economy. In preparing our budgets, the City uses the Michigan Department of Treasury's estimates as published on their web site. Management believes that although the state may fund state shared revenue at the same level as 2006, this will actually result in a reduction in our statutory share of revenue sharing. As sales tax collections continue to increase and constitutional values go up there will be less in the fund to distribute as the statutory share of revenue sharing. The fiscal year 2007 budget was prepared with recognition of decreasing or stagnant revenue sharing proceeds. Our fund balance will enable the City to weather any likely reductions in FY2007 state shared revenue.

iii) Utility Charges for Services

From an entity wide perspective, utility charges for services are the third major revenue source. At one time, the refinery represented 25% of water sales. With the closure of the refinery, that revenue source ceased. While industry is still a major water sales component, no one customer represents such a significant percentage of sales. Utility sales, while affected by the economy, experience larger swings of revenue from changes in weather conditions. During dry spells, water sales increase. For the FY2007 budget, we assumed that units of sales will be roughly equal to FY2006 volumes.

8) Contacting the City's Financial Management Team

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager or City Controller at PO Box 278; Alma, Michigan 48801 or call at 989-463-8336.

BASIC FINANCIAL STATEMENTS



City of Alma, Michigan
Statement of Net Assets
June 30, 2006

	Primary Government			Component Units
	Governmental	Business-type	Total	
	Activities	Activities		
ASSETS				
Cash and cash equivalents	\$ 889,118	\$ 2,646,320	\$ 3,535,438	\$ 4,415,070
Investments	5,357,268	2,250,962	7,608,230	487,797
Receivables (net)	1,465,160	561,462	2,026,622	172,368
Inventories and prepaid items	270,228	33,992	304,220	6,980
Internal balances	(5,421)	5,421	-	-
Restricted cash	-	193,672	193,672	29,526
Investment in joint venture	497,700	-	497,700	-
Land and construction in progress	1,637,817	1,080,417	2,718,234	846,675
Other capital assets, net of depreciation	14,049,191	7,309,867	21,359,058	2,921,576
Total assets	24,161,061	14,082,113	38,243,174	8,879,992
LIABILITIES				
Current payables and accrued expenses	568,393	414,624	983,017	350,758
Portion of long term liabilities due within one year	292,043	253,669	545,712	125,000
Due in more than one year:				
Compensated absences	106,137	39,181	145,318	30,125
General Obligation bonds	165,000	4,232,418	4,397,418	3,218,500
Special Assessment bonds	150,000	-	150,000	-
Notes payable	90,000	-	90,000	-
Revenue bonds	-	207,708	207,708	-
Total liabilities	1,371,573	5,147,600	6,519,173	3,724,383
NET ASSETS				
Invested in capital assets, net of related debt	15,087,008	3,743,565	18,830,573	3,578,476
Restricted for:				
Capital projects	25,765	-	25,765	55,536
Debt service	119,148	-	119,148	-
Permanent funds	735,340	-	735,340	-
Unrestricted	6,822,227	5,190,948	12,013,175	1,521,597
Total net assets	\$ 22,789,488	\$ 8,934,513	\$ 31,724,001	\$ 5,155,609

The accompanying notes are an integral part of these financial statements

City of Alma, Michigan
Statement of Activities
For the Year Ended June 30, 2006

Activities/Programs	Expenses	Program Revenues		
		Service Charges	Operating Grants Contributions	Capital Grants Contributions
Primary government				
Governmental activities:				
Community development	\$ 458,567	\$ 279,453	\$ 92,541	\$ -
Community safety	1,861,105	339,238	23,429	-
Property maintenance	400,452	64,252	30,044	-
Transportation	1,155,820	383,166	993,339	-
Recreation and cultural	620,657	295,615	27,525	-
Legislative	101,578	3,055	-	-
Administrative services	327,708	1,561	-	-
Interest on long term debt	36,148	-	-	-
Total governmental activities	<u>4,962,035</u>	<u>1,366,340</u>	<u>1,166,878</u>	<u>-</u>
Business-type activities:				
State Street Plaza	50,960	43,858	-	-
Transit Services	595,833	77,730	263,560	125,521
Wastewater	969,814	930,414	-	-
Water	1,077,069	1,211,936	-	-
Solid Waste	509,578	469,948	-	-
Total business-type activities	<u>3,203,254</u>	<u>2,733,886</u>	<u>263,560</u>	<u>125,521</u>
Total primary government	<u>\$ 8,165,289</u>	<u>\$ 4,100,226</u>	<u>\$ 1,430,438</u>	<u>\$ 125,521</u>
Component Units				
Downtown Development Authority	\$ 27,518	\$ -	\$ 6,000	\$ -
Local Development Financing Authority	13,829	-	-	-
Alma Public Library	676,685	10,104	434,122	58,812
Alma Housing Commission	941,361	265,446	577,038	87,059
Total component units	<u>\$ 1,659,393</u>	<u>\$ 275,550</u>	<u>\$ 1,017,160</u>	<u>\$ 145,871</u>
General revenues:				
Property taxes				
Intergovernmental				
Investment income				
Other revenue				
Total general revenue				
Change in net assets				
Beginning net assets, as restated				
Ending net assets				

The accompanying notes are an integral part of these financial statements

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (86,573)	\$ -	\$ (86,573)	
(1,498,438)	-	(1,498,438)	
(306,156)	-	(306,156)	
220,685	-	220,685	
(297,517)	-	(297,517)	
(98,523)	-	(98,523)	
(326,147)	-	(326,147)	
(36,148)	-	(36,148)	
(2,428,817)	-	(2,428,817)	
-	(7,102)	(7,102)	
-	(129,022)	(129,022)	
-	(39,400)	(39,400)	
-	134,867	134,867	
-	(39,630)	(39,630)	
-	(80,287)	(80,287)	
(2,428,817)	(80,287)	(2,509,104)	
			\$ (21,518)
			(13,829)
			(173,647)
			(11,818)
			(220,812)
2,462,946	139,970	2,602,916	314,483
1,165,766	-	1,165,766	-
276,736	182,452	459,188	176,672
192,347	6,231	198,578	58,338
4,097,795	328,653	4,426,448	549,493
1,668,978	248,366	1,917,344	328,681
21,120,510	8,686,147	29,806,657	4,826,928
\$ 22,789,488	\$ 8,934,513	\$ 31,724,001	\$ 5,155,609

City of Alma, Michigan
Balance Sheet
Governmental Funds
6/30/2006

	General	Major Streets	Alma Fire District	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 401,289	\$ 118,022	\$ 18,243	\$ 176,970	\$ 714,524
Investments	2,086,051	733,301	113,351	1,353,560	4,286,263
Receivables, net	499,046	62,310	2,596	209,355	773,307
Due from other funds	212,000	-	-	111,691	323,691
Due from other units	421,576	99,728	-	121,534	642,838
Property held for resale	-	-	-	127,072	127,072
Prepaid items	42,190	-	7,223	97	49,510
Total assets	<u>\$ 3,662,152</u>	<u>\$ 1,013,361</u>	<u>\$ 141,413</u>	<u>\$ 2,100,279</u>	<u>\$ 6,917,205</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current payables	\$ 276,235	\$ 1,473	\$ 4,151	\$ 105,048	\$ 386,907
Due to other funds	36,240	-	-	214,455	250,695
Due to other units	13,500	-	-	-	13,500
Accrued wages	16,801	-	72	-	16,873
Deferred revenue	217,272	40,895	-	146,756	404,923
Total liabilities	<u>560,048</u>	<u>42,368</u>	<u>4,223</u>	<u>466,259</u>	<u>1,072,898</u>
Fund balances:					
Reserved:					
Reserved for prepaid items	42,190	-	7,223	97	49,510
Reserved for public safety employees	-	-	-	459,950	459,950
Reserved for law enforcement	-	-	-	107	107
Reserved for debt service	-	-	-	119,148	119,148
Reserved for cemetery endowment	-	-	-	410,120	410,120
Reserved for library endowment	-	-	-	325,220	325,220
Unreserved	3,059,914	970,993	129,967	-	4,160,874
Unreserved, reported in nonmajor:					
Special revenue funds	-	-	-	294,080	294,080
Capital project funds	-	-	-	25,298	25,298
Total fund balances	<u>3,102,104</u>	<u>970,993</u>	<u>137,190</u>	<u>1,634,020</u>	<u>5,844,307</u>
Total liabilities and fund balances	<u>\$ 3,662,152</u>	<u>\$ 1,013,361</u>	<u>\$ 141,413</u>	<u>\$ 2,100,279</u>	<u>\$ 6,917,205</u>

The accompanying notes are an integral part of these financial statements

City of Alma, Michigan
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2006

Total fund balances per fund financial statements	\$ 5,844,307
Capital assets are not reported in fund financial statements, but are reported in the statement of net assets	14,485,352
Investment in joint venture, Gratiot Community Airport, is not reported in fund financial statements, but is reported in the statement of net assets	497,700
Certain long-term receivables are deferred in the fund financial statements, but are reported in the statement of net assets	404,923
Uncollectible receivables are estimated in the statement of net assets, but are not reported in the fund financial statements	(72,743)
Assets and liabilities of internal service funds which are related to governmental programs are presented in the statement of net assets, but not in the fund financial statements	2,342,958
Certain charges to component units are required to eliminate internal service fund profits in the statement of net assets, but are not reported in the fund financial statements	4,828
Certain long term liabilities are not reported in the fund financial statements, but are reported in the statement of net assets	(712,365)
Interest payable on long term debt is accrued in the statement of net assets, but not in the fund financial statements	(5,472)
Net assets for governmental activities	<u>\$ 22,789,488</u>

The accompanying notes are an integral part of these financial statements

City of Alma, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2006

	General	Major Streets	Alma Fire District	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 2,102,126	\$ -	\$ -	\$ 363,748	\$ 2,465,874
Licenses and permits	97,441	-	-	-	97,441
Intergovernmental revenue	1,246,764	439,184	-	646,696	2,332,644
Charges for services	122,181	55,053	251,657	178,486	607,377
Fines and forfeits	22,956	-	-	-	22,956
Investment income	143,011	39,846	3,228	77,029	263,114
Other revenue	532,014	168,800	790	14,594	716,198
Total revenues	<u>4,266,493</u>	<u>702,883</u>	<u>255,675</u>	<u>1,280,553</u>	<u>6,505,604</u>
EXPENDITURES					
Current:					
Community development	329,023	-	-	129,281	458,304
Community safety	1,321,963	-	365,256	1,360	1,688,579
Property maintenance	370,906	-	-	-	370,906
Transportation	199,612	274,310	-	275,587	749,509
Recreation and cultural	548,528	-	-	10,400	558,928
Legislative	100,338	-	-	-	100,338
Administrative services	326,437	-	-	-	326,437
Debt Service:					
Principal	40,000	-	-	145,000	185,000
Interest and fiscal charges	8,726	-	-	32,368	41,094
Capital improvements	398,629	168,800	241,471	1,509,991	2,318,891
Total expenditures	<u>3,644,162</u>	<u>443,110</u>	<u>606,727</u>	<u>2,103,987</u>	<u>6,797,986</u>
Excess (deficiency) revenues over expenditures	<u>622,331</u>	<u>259,773</u>	<u>(351,052)</u>	<u>(823,434)</u>	<u>(292,382)</u>
OTHER FINANCING SOURCES (USES)					
Transfers from	13,600	-	288,653	431,007	733,260
Transfers to	(639,660)	(80,000)	-	(13,600)	(733,260)
Total other financing	<u>(626,060)</u>	<u>(80,000)</u>	<u>288,653</u>	<u>417,407</u>	<u>-</u>
Net change in fund balances	(3,729)	179,773	(62,399)	(406,027)	(292,382)
Beginning fund balances, as restated	3,105,833	791,220	199,589	2,040,047	6,136,689
Ending fund balances	<u>\$ 3,102,104</u>	<u>\$ 970,993</u>	<u>\$ 137,190</u>	<u>\$ 1,634,020</u>	<u>\$ 5,844,307</u>

The accompanying notes are an integral part of these financial statements

City of Alma, Michigan
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net change in total fund balances per fund financial statements	\$ (292,382)
Capital outlays are reported as expenditures in the fund financial statements, but reported as assets in the statement of net assets	2,318,891
Depreciation on capital assets is not reported in the fund financial statements, but is reported in the statement of activities	(723,681)
Principal payments on long term debt are reported as expenditures in the fund financial statements, but reported as a reduction in debt in the statement of net assets	185,000
Compensated absences are accrued in the statement of activities	9,995
Increase in value of joint venture	184,347
Change in allowance for doubtful accounts	4,955
Change in interest payable	5,732
The statement of activities includes refunds to bring internal service funds to a break-even position	35,973
The statement of activities includes interest earned on internal service funds	50,783
The statement of activities includes external revenues earned in internal service funds	20,344
The statement of activities includes revenue deferred in the fund financial statements	9,611
The fund financial statements includes revenue reported as a reduction in receivables in the statement of net assets	(140,590)
Change in net assets for governmental activities	<u>\$ 1,668,978</u>

The accompanying notes are an integral part of these financial statements

City of Alma, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 General Fund
 For the Year Ended June 30, 2006, with Comparative Totals for June 30, 2005

	June 30, 2006				Year Ended June-05
	Budgeted Amounts			Budget	
	Original	Final	Actual	Variance	Actual
REVENUES					
Taxes	\$2,009,051	\$2,109,051	\$2,102,126	(\$6,925)	\$2,023,766
Licenses and permits	82,200	82,200	97,441	15,241	77,492
Intergovernmental revenue	1,280,382	1,243,009	1,246,764	3,755	1,294,138
Charges for services	106,900	102,900	122,181	19,281	190,677
Fines and forfeits	25,000	25,000	22,956	(2,044)	24,493
Investment income	130,750	134,750	143,011	8,261	97,466
Other revenue	756,150	363,450	532,014	168,564	53,726
Total revenues	4,390,433	4,060,360	4,266,493	206,133	3,761,758
EXPENDITURES					
Community Development					
Economic development	846,947	326,947	337,244	10,297	401,730
Contribution to Downtown Development Authority	6,000	6,000	6,000	-	6,000
Downtown maintenance	70,781	70,781	67,484	(3,297)	53,205
Parking lots	41,590	41,590	23,352	(18,238)	43,324
Zoning	45,763	45,763	23,696	(22,067)	31,879
Total Community Development	1,011,081	491,081	457,776	(33,305)	536,138
Community Safety					
Police	1,212,486	1,214,486	1,223,474	8,988	1,172,588
Building code enforcement	121,401	121,401	108,365	(13,036)	102,536
Total Community Safety	1,333,887	1,335,887	1,331,839	(4,048)	1,275,124
Property Maintenance					
Cemetery	210,348	210,348	175,860	(34,488)	205,371
Municipal building	156,711	156,711	99,648	(57,063)	223,091
Forestry	104,987	104,987	95,398	(9,589)	76,396
Total Property Maintenance	472,046	472,046	370,906	(101,140)	504,858
Transportation					
Contribution to Gratiot Community Airport	47,600	35,000	17,500	(17,500)	47,600
Sidewalks	97,029	97,029	76,178	(20,851)	53,218
Street lighting	99,787	103,887	105,934	2,047	102,719
Total Transportation	244,416	235,916	199,612	(36,304)	203,537
Recreation and Cultural					
Parks and recreation	299,412	299,412	228,026	(71,386)	266,128
Contribution to Alma Public Library	274,730	274,730	274,730	-	231,400
Community Center	-	22,000	279,377	257,377	-
Alma Public Access studio	39,272	39,272	26,395	(12,877)	33,796
Total Recreation and Cultural	613,414	635,414	808,528	173,114	531,324

City of Alma, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 General Fund
 For the Year Ended June 30, 2006, with Comparative Totals for June 30, 2005

	June 30, 2006				(Concluded)
	Budgeted Amounts			Budget	Year Ended
	Original	Final	Actual	Variance	June-05
					Actual
Legislative Activities					
City commission	\$ 52,842	\$ 52,842	\$ 42,115	\$ (10,727)	\$ 45,621
Registration and elections	22,395	22,395	21,785	(610)	50,050
City clerk	46,252	46,252	36,438	(9,814)	24,146
Total Legislative Activities	121,489	121,489	100,338	(21,151)	119,817
Administrative Services					
City manager	121,654	132,654	125,949	(6,705)	111,082
City treasurer	65,132	65,132	60,577	(4,555)	55,751
Assessor	148,406	148,406	139,911	(8,495)	138,560
Contingency	-	-	-	-	-
Total Administrative Services	335,192	346,192	326,437	(19,755)	305,393
Debt Service					
Principal	40,000	40,000	40,000	-	40,000
Interest and fiscal charges	8,700	8,728	8,726	(2)	10,750
Total Debt Service	48,700	48,728	48,726	(2)	50,750
Total expenditures	4,180,225	3,686,753	3,644,162	(42,591)	3,526,941
Excess (deficiency) revenues over expenditures	210,208	373,607	622,331	248,724	234,817
OTHER FINANCING SOURCES (USES)					
Transfers from	11,440	11,440	13,600	2,160	10,100
Transfers to	(466,785)	(466,785)	(639,660)	172,875	(555,110)
Total other financing	(455,345)	(455,345)	(626,060)	175,035	(545,010)
Net change in fund balance	(245,137)	(81,738)	(3,729)	78,009	(310,193)
Beginning fund balance, restated	3,105,833	3,105,833	3,105,833	-	3,416,026
Ending fund balance	\$ 2,860,696	\$ 3,024,095	\$ 3,102,104	\$ 78,009	\$ 3,105,833

The accompanying notes are an integral part of these financial statements

City of Alma, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 Major Streets Fund
 For the Year Ended June 30, 2006, with Comparative Totals for June 30, 2005

	June 30, 2006				Year Ended June-05
	Budgeted Amounts			Budget	
	Original	Final	Actual	Variance	Actual
REVENUES					
Intergovernmental revenue	\$ 440,000	\$ 440,000	\$ 439,184	\$ (816)	\$ 432,069
Charges for services	77,000	77,000	55,053	(21,947)	78,897
Investment income	23,021	23,021	39,846	16,825	20,871
Other revenue	-	-	168,800	168,800	3,684
Total revenues	540,021	540,021	702,883	162,862	535,521
EXPENDITURES					
Engineering	24,480	24,480	-	(24,480)	-
Michigan trunkline maintenance	96,800	96,800	46,748	(50,052)	68,482
Road and street maintenance	139,340	139,340	97,657	(41,683)	155,497
Storm sewer maintenance	-	-	22,570	22,570	-
Bridge maintenance	900	900	322	(578)	1,111
Grass and weed control	6,570	6,570	5,201	(1,369)	4,741
Traffic services	43,990	43,990	37,890	(6,100)	27,477
Winter maintenance	45,355	45,355	36,438	(8,917)	41,834
Construction	-	-	168,800	168,800	-
Administration	21,312	21,312	27,484	6,172	28,976
Total expenditures	378,747	378,747	443,110	64,363	328,118
Excess (deficiency) revenues over expenditures	161,274	161,274	259,773	98,499	207,403
OTHER FINANCING SOURCES (USES)					
Transfers to	(80,000)	(80,000)	(80,000)	-	(125,000)
Total other financing	(80,000)	(80,000)	(80,000)	-	(125,000)
Net change in fund balance	81,274	81,274	179,773	98,499	82,403
Beginning fund balance	791,220	791,220	791,220	-	708,817
Ending fund balance	\$ 872,494	\$ 872,494	\$ 970,993	\$ 98,499	\$ 791,220

The accompanying notes are an integral part of these financial statements

City of Alma, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 Alma District Fire Department
 For the Year Ended June 30, 2006, with Comparative Totals for June 30, 2005

	June 30, 2006				Year Ended June-05 Actual
	Budgeted Amounts			Budget Variance	
	Original	Final	Actual		
REVENUES					
Charges for services	\$ 186,645	\$ 186,645	\$ 251,657	\$ 65,012	\$ 182,703
Investment income	3,150	3,150	3,228	78	6,942
Other revenue	10,000	10,000	790	(9,210)	6,415
Total revenues	199,795	199,795	255,675	55,880	196,060
EXPENDITURES					
Personnel	253,007	253,007	246,176	(6,831)	244,902
Operating and maintenance supplies	39,895	40,395	33,082	(7,313)	32,601
Professional and contractual services	5,900	5,900	9,082	3,182	3,478
Internal service charges	27,570	27,570	28,972	1,402	23,907
Communications and utilities	10,600	10,600	8,728	(1,872)	10,067
Insurance and fixed charges	61,300	61,300	39,216	(22,084)	52,845
Capital outlay	236,714	241,514	241,471	(43)	250,500
Total expenditures	634,986	640,286	606,727	(33,559)	618,300
Excess (deficiency) revenues over expenditures	(435,191)	(440,491)	(351,052)	89,439	(422,240)
OTHER FINANCING SOURCES (USES)					
Transfers from	288,653	288,653	288,653	-	214,055
Net change in fund balances	(146,538)	(151,838)	(62,399)	89,439	(208,185)
Beginning fund balance	199,589	199,589	199,589	-	407,774
Ending fund balance	\$ 53,051	\$ 47,751	\$ 137,190	\$ 89,439	\$ 199,589

The accompanying notes are an integral part of these financial statements

City of Alma, Michigan
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Enterprise Funds			
	State Street Plaza	Transit Services	Wastewater Utility	Water Utility
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 88,473	\$ 127,787	\$ 83,020	\$ 2,305,466
Investments	549,708	792,982	513,030	137,915
Receivables, net	10,036	16,294	184,657	229,593
Due from component unit	-	-	-	-
Due from other units	-	22,061	16,854	-
Due from other funds	-	-	-	17,626
Inventories	-	-	2,091	17,712
Prepaid items	10	6,527	2,697	4,765
Restricted assets:				
Restricted cash	-	-	17,599	176,073
Total current assets	648,227	965,651	819,948	2,889,150
Noncurrent assets:				
Capital assets:				
Land	62,300	-	10,000	115,790
Construction in progress	-	176,079	22,360	668,888
Land improvements	120,293	-	20,265	7,150
Buildings and improvements	745,367	89,327	5,149,205	1,706,606
Vehicles and equipment	-	596,100	424,417	1,048,334
Distribution and collection systems	-	-	2,114,483	5,189,266
Less accumulated depreciation	(566,480)	(284,553)	(3,833,517)	(5,218,594)
Total noncurrent assets	361,480	576,953	3,907,213	3,517,440
Total assets	1,009,707	1,542,604	4,727,161	6,406,590
LIABILITIES				
Current liabilities:				
Current payables and accrued expenses	127	34,241	57,263	302,781
Due to other funds	-	-	35,691	56,591
Portion of long term liabilities due within one year	-	13,859	86,604	156,613
Total current liabilities	127	48,100	179,558	515,985
Noncurrent liabilities:				
Compensated absences	-	12,475	11,006	15,700
Bonds payable, net of discount	-	-	1,839,461	2,597,258
Total noncurrent liabilities	-	12,475	1,850,467	2,612,958
Total liabilities	127	60,575	2,030,025	3,128,943
NET ASSETS				
Invested in capital assets net of related debt	361,480	576,953	1,997,752	780,182
Unrestricted	648,100	905,076	699,384	2,497,466
Total net assets	\$ 1,009,580	\$ 1,482,029	\$ 2,697,136	\$ 3,277,648

The accompanying notes are an integral part of these financial statements

Solid Waste Disposal	Total	Internal Service Funds
\$ 41,574	\$ 2,646,320	\$ 174,593
257,326	2,250,961	1,071,006
81,967	522,547	33,383
-	-	10,180
-	38,915	-
-	17,626	2,060
-	19,803	28,312
190	14,189	65,334
-	193,672	-
<u>381,057</u>	<u>5,704,033</u>	<u>1,384,868</u>
25,000	213,090	18,894
-	867,327	-
8,370	156,078	-
-	7,690,505	771,663
6,595	2,075,446	3,190,605
-	7,303,749	-
(12,767)	(9,915,911)	(2,779,506)
<u>27,198</u>	<u>8,390,284</u>	<u>1,201,656</u>
<u>408,255</u>	<u>14,094,317</u>	<u>2,586,524</u>
20,211	414,623	72,275
-	92,282	400
-	257,076	41,656
<u>20,211</u>	<u>763,981</u>	<u>114,331</u>
-	39,181	49,159
-	4,436,719	-
-	4,475,900	49,159
<u>20,211</u>	<u>5,239,881</u>	<u>163,490</u>
27,198	3,743,565	1,201,656
360,846	5,110,872	1,221,378
<u>\$ 388,044</u>	<u>\$ 8,854,437</u>	<u>\$ 2,423,034</u>

Reconciliation of Proprietary Funds Net Assets
To Statement of Net Assets
June 30, 2006

Net Assets per fund financial statements	\$ 8,854,437
Internal balances related to internal service fund eliminations	80,076
Net assets for business-type activities	<u>\$ 8,934,513</u>

City of Alma, Michigan
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Enterprise Funds			
	State Street Plaza	Transit Services	Wastewater Utility	Water Utility
OPERATING REVENUES				
Licenses and permits	\$ -	\$ -	\$ 125	\$ -
Charges for services	-	79,640	930,289	1,169,376
Fines and forfeits	-	-	-	42,559
Other revenue	43,859	-	-	1,823
Total operating revenues	<u>43,859</u>	<u>79,640</u>	<u>930,414</u>	<u>1,213,758</u>
OPERATING EXPENSES				
Plant operations	-	-	263,841	143,104
Purifications	-	-	207,781	230,663
Industrial pre-treatment	-	-	5,490	-
Maintenance of mains	-	-	143,437	248,346
Refuse collection and disposal	-	-	-	-
Recycling	-	-	-	-
Yard waste and compost site	-	-	-	-
Vehicle and facility maintenance	21,950	49,823	-	-
Transit operations	-	347,754	-	-
Customer accounting and administration	3,241	113,704	175,443	201,415
Public works services	-	-	-	-
Depreciation	26,461	82,037	93,887	176,147
Total operating expenses	<u>51,652</u>	<u>593,318</u>	<u>889,879</u>	<u>999,675</u>
Operating income (loss)	<u>(7,793)</u>	<u>(513,678)</u>	<u>40,535</u>	<u>214,083</u>
NONOPERATING REVENUES (EXPENSES)				
Taxes	-	139,970	-	-
Intergovernmental revenue	-	263,561	-	-
Investment income	25,862	39,148	40,549	56,465
Other revenue	-	2,500	(80,334)	-
Interest expense and fiscal charges	-	-	-	(67,150)
Nonoperating revenues (expenses)	<u>25,862</u>	<u>445,179</u>	<u>(39,785)</u>	<u>(10,685)</u>
Income (loss) before capital contributions	18,069	(68,499)	750	203,398
Capital grants	-	125,521	-	-
Change in net assets	18,069	57,022	750	203,398
Beginning net assets, as restated	991,511	1,425,007	2,696,386	3,074,250
Ending net assets	<u>\$ 1,009,580</u>	<u>\$ 1,482,029</u>	<u>\$ 2,697,136</u>	<u>\$ 3,277,648</u>

The accompanying notes are an integral part of these financial statements

Solid Waste Disposal	Total	Internal Service Funds
\$ -	\$ 125	\$ -
469,948	2,649,253	2,309,770
-	42,559	-
-	45,682	100
<u>469,948</u>	<u>2,737,619</u>	<u>2,309,870</u>
-	406,945	-
-	438,444	-
-	5,490	-
-	391,783	-
186,699	186,699	-
52,276	52,276	-
228,943	228,943	-
-	71,773	804,275
-	347,754	-
51,647	545,450	710,423
-	-	493,921
658	379,190	265,347
<u>520,223</u>	<u>3,054,747</u>	<u>2,273,966</u>
<u>(50,275)</u>	<u>(317,128)</u>	<u>35,904</u>
-	139,970	-
-	263,561	-
12,691	174,715	50,783
-	(77,834)	27,124
-	(67,150)	-
<u>12,691</u>	<u>433,262</u>	<u>77,907</u>
<u>(37,584)</u>	<u>116,134</u>	<u>113,811</u>
-	125,521	-
<u>(37,584)</u>	<u>241,655</u>	<u>113,811</u>
425,628	8,612,782	2,309,223
<u>\$ 388,044</u>	<u>\$ 8,854,437</u>	<u>\$ 2,423,034</u>

Reconciliation of Statement of Revenues, Expenses and
Changes in Net Assets of Proprietary Funds to
Statement of Activities
For the Year Ended June 30, 2006

Change in net assets per fund
financial statements \$ 241,655

Change in internal service charges
to break even 6,711

Change in net assets per
statement of activities \$ 248,366

City of Alma, Michigan
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Enterprise Funds			
	State Street Plaza	Transit Services	Wastewater Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 43,858	\$ 79,640	\$ 896,778	\$ 1,161,725
Receipts from other funds and component units	-	-	-	-
Payments to vendors	(5,531)	(57,489)	(201,827)	(238,404)
Payments to employees	(1,412)	(384,888)	(293,157)	(401,274)
Internal activity-payments to other funds	(14,646)	(27,298)	(165,947)	(140,963)
Other payments	(2,353)	(11,680)	(37,383)	(26,090)
Net cash provided (used) from operating activities	19,916	(401,715)	198,464	354,994
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Service charges from outside customers	-	-	-	-
Insurance proceeds	-	-	-	-
Payments on long term receivables	-	-	7,285	9,103
Subsidies from other governments	-	294,688	-	-
Receipts from voted millage	-	140,151	-	-
Net cash provided from noncapital financing activities	-	434,839	7,285	9,103
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from the issuance of capital debt	-	-	-	2,468,750
Capital contributions	-	125,521	-	-
Acquisitions of capital assets	(25,101)	(165,995)	(2,087,315)	(521,266)
Proceeds from sale of capital assets	-	2,500	-	-
Principal paid on capital debt	-	-	(70,000)	(60,000)
Interest paid on capital debt	-	-	(74,192)	(48,624)
Net cash provided (used) for capital and related financing activities	(25,101)	(37,974)	(2,231,507)	1,838,860
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	23,241	35,425	45,539	57,299
Purchase of investments	7,410	6,621	883,406	31,555
Net cash provided (used) from investing activities	30,651	42,046	928,945	88,854
Net increase (decrease) in cash	25,466	37,196	(1,096,813)	2,291,811
Beginning cash balance	63,007	90,591	1,197,432	189,728
Ending cash balance	\$ 88,473	\$ 127,787	\$ 100,619	\$ 2,481,539
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$ (7,793)	(513,678)	40,535	214,083
Depreciation expense	26,461	82,037	93,887	176,147
Change in assets and liabilities:				
Decrease in receivables	-	-	(33,636)	(52,033)
Increase in inventory	-	-	1,819	(4,560)
Decrease in prepaid expenses	1,454	5,101	18,632	15,866
Increase in accounts payable	(206)	24,825	77,227	5,491
Net cash provided (used) by operating activities	\$ 19,916	\$ (401,715)	\$ 198,464	\$ 354,994

The accompanying notes are an integral part of these financial statements

Solid Waste Disposal	Total	Internal Service Funds
\$ 468,875	\$ 2,650,876	\$ -
-	-	2,313,228
(245,769)	(749,020)	(315,061)
(7,169)	(1,087,900)	(1,412,070)
(255,683)	(604,537)	(225,448)
(5,841)	(83,347)	(39,839)
<u>(45,587)</u>	<u>126,072</u>	<u>320,810</u>
-	-	21,021
-	-	2,047
-	16,388	-
-	294,688	-
-	140,151	-
<u>-</u>	<u>451,227</u>	<u>23,068</u>
-	2,468,750	-
-	125,521	-
-	(2,799,677)	(273,036)
-	2,500	25,295
-	(130,000)	-
-	(122,816)	-
<u>-</u>	<u>(455,722)</u>	<u>(247,741)</u>
12,160	173,664	42,707
41,236	970,228	(76,703)
<u>53,396</u>	<u>1,143,892</u>	<u>(33,996)</u>
7,809	1,265,469	62,141
33,765	1,574,523	112,452
<u>\$ 41,574</u>	<u>\$ 2,839,992</u>	<u>\$ 174,593</u>
(50,275)	(317,128)	35,904
658	379,190	265,347
(1,073)	(86,742)	3,358
-	(2,741)	-
4,510	45,563	(7,347)
593	107,930	23,548
<u>\$ (45,587)</u>	<u>\$ 126,072</u>	<u>\$ 320,810</u>

City of Alma, Michigan
Statement of Fiduciary Net Assets
 Agency Fund
 June 30, 2006 with comparative amounts at June 30, 2005

	30-Jun-06	30-Jun-05
ASSETS		
Cash and cash equivalents	\$ 25,411	\$ 59,869
Investments	157,884	199,782
Receivables - net	5	385
 Total assets	 <u>\$ 183,300</u>	 <u>\$ 260,036</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Current payables	\$ 20,004	\$ 5,251
Due to other governments	163,296	254,785
Due to joint venture	-	-
 Total liabilities	 <u>\$ 183,300</u>	 <u>\$ 260,036</u>

The accompanying notes are an integral part of these financial statements

City of Alma
Component Units
Combining Statement of Net Assets
June 30, 2006

	Alma Downtown Development Authority	Local Development Financing Authority	Alma Public Library	at 12/31/2005 Alma Housing Commission	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 2,880	\$ 8,421	\$ 3,095,202	\$ 1,308,567	\$ 4,415,070
Investments	17,891	52,322	287,406	130,178	487,797
Taxes receivable	512	-	-	-	512
Receivables, net	373	957	3,503	2,833	7,666
Due from other units	133	-	164,057	-	164,190
Inventories	-	-	2,710	-	2,710
Prepaid items	137	-	630	3,503	4,270
Restricted assets:					
Restricted cash	-	-	29,526	-	29,526
Total current assets	21,926	61,700	3,583,034	1,445,081	5,111,741
Noncurrent assets:					
Land and construction in progress	8,000	-	714,585	124,090	846,675
Other capital assets, net of depreciation	11,950	-	523,234	2,386,392	2,921,576
Total noncurrent assets	19,950	-	1,237,819	2,510,482	3,768,251
Total assets	41,876	61,700	4,820,853	3,955,563	8,879,992
LIABILITIES					
Current liabilities:					
Current payables and accrued expenses	898	-	263,109	60,850	324,857
Portion of long term liabilities due within one year	563	-	137,625	12,713	150,901
Total current liabilities	1,461	-	400,734	73,563	475,758
Non-current liabilities:					
Compensated absences	2,057	-	19,531	8,537	30,125
Bonds payable	-	-	3,218,500	-	3,218,500
Total non-current liabilities	2,057	-	3,238,031	8,537	3,248,625
Total liabilities	3,518	-	3,638,765	82,100	3,724,383
NET ASSETS					
Invested in capital assets, net of related debt	-	-	1,067,994	2,510,482	3,578,476
Restricted	-	-	-	55,536	55,536
Unrestricted	38,358	61,700	114,094	1,307,445	1,521,597
Total net assets	\$ 38,358	\$ 61,700	\$ 1,182,088	\$ 3,873,463	\$ 5,155,609

City of Alma
Component Units

The accompanying notes are an integral part of these financial statements

Combining Statement of Activities
For The Year Ended June 30, 2006

	Downtown Development Authority	Local Development Financing Authority	Alma Public Library	at 12/31/2005 Alma Housing Commission	Total
Expenses					
Community development	\$ 27,518	\$ 13,829	\$ -	\$ -	\$ 41,347
Recreation and culture	-	-	676,685	-	676,685
Housing and redevelopment	-	-	-	941,361	941,361
Total Component Units	27,518	13,829	676,685	941,361	1,659,393
Program revenues:					
Charges for services	-	-	10,104	265,446	275,550
Operating grants and contributions	6,000	-	434,122	577,038	1,017,160
Capital grants and contributions	-	-	58,812	87,059	145,871
Total program revenues	6,000	-	503,038	929,543	1,438,581
Net program expense	21,518	13,829	173,647	11,818	220,812
General revenues:					
Property taxes	23,564	-	290,919	-	314,483
Investment income	1,165	2,948	144,243	28,316	176,672
Other revenue	20,135	-	11,321	26,882	58,338
Total general revenue	44,864	2,948	446,483	55,198	549,493
Change in net assets	23,346	(10,881)	272,836	43,380	328,681
Beginning net assets	15,012	72,581	909,252	3,830,083	4,826,928
Ending net assets	\$ 38,358	\$ 61,700	\$ 1,182,088	\$ 3,873,463	\$ 5,155,609

The accompanying notes are an integral part of these financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Located in Gratiot County, Michigan, Alma was settled in 1853 along the banks of the Pine River, became a village in 1872 and was incorporated in 1905 as the City of Alma. Organized under Michigan's Comprehensive Home Rule City Act, the City of Alma is governed by a seven-member City Commission elected by its 9,275 citizens at large. The City Commission selects the Mayor and Vice Mayor from among its members. A City Manager is appointed to administer the business of the City. By charter, City of Alma is a full service city providing police and fire protection, highways and streets, sanitation, water production and distribution, housing, culture, recreation, public improvements, planning, zoning and general administration. The accounting policies of the City of Alma conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

(A) THE REPORTING ENTITY

As required by generally accepted accounting principals, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because they are entities for which the City is financially responsible, has influence over the selection of the governing authority and designation of management, and has the ability to exert significant influence on operations.

All component units are presented in a separate column in the government-wide financial statements to emphasize their separate legal status from the primary government. Alma Downtown Development Authority, Alma Local Development Finance Authority and Alma Public Library have a June 30 year end. Alma Housing Commission has a December 31 year end.

(i) Discretely Presented Component Units

Alma Downtown Development Authority is responsible for the correction and prevention of deterioration, encouragement of historic preservation, authorization of the creation and implementation of development plans and promotion of economic growth within the central business district. The Mayor appoints the board of the Alma D.D.A. after being ratified by the City Commission. The Alma D.D.A. is legally separate from the City and is fiscally independent of the City. The D.D.A. currently levies a two-mill property tax on the district as authorized by the Alma City Commission. The D.D.A. has been relying on donations and contributions from the City. There are no separate financial statements.

Alma Local Development Finance Authority is responsible for providing infrastructure improvements in Alma's industrial district. A majority of the board of the Alma L.D.F.A. is appointed by the City Manager. The Alma Public School Board and the Gratiot County Board of Commissioners each appoint one member of the board. Projects are restricted to the established development district. The Alma L.D.F.A. is legally separate from the City but the Alma City Commission must approve all debt issues. There are no separate financial statements.

Alma Public Library operates the local library in Alma. The Library Board is appointed by the City Commission. The Library is legally separate from the City; however, any debt issued by the Library must be approved by the Alma City Commission. The Library is funded primarily by contributions from the City and an allocation of penal fines from the district court. There are no separate financial statements.

Alma Housing Commission provides assistance in low income housing by operating subsidized low-income housing and rent vouchers. The Board of the Housing Commission is appointed by the City Manager. The Commission is legally separate from the City. All debt must be approved by the City of Alma. All land used by the Housing Commission is owned by the City. The Commission receives most of its funding from rental income and federal grants. Fiscal year ended December 31, 2005 has been presented in this report. Complete financial statements for the Housing Commission can be obtain by writing to:

Ms. Marcia Zimmerman
Alma Housing Commission
400 E. Warwick
Alma, MI 48801

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

(ii) Blended Component Units

Alma Building Authority provides bond financing for City of Alma and its component units. The Board is appointed by the Alma City Commission. The Authority is a separate legal entity. With the repayment of the Tartan Terrace Construction bonds, the authority is inactive.

(iii) Joint Ventures

Gratiot Community Airport Commission operates the only public airport in Gratiot County. The City of Alma and Gratiot County each appoint three of the six members of the Gratiot Community Airport Commission. The Commission is responsible for preparing the annual budget (which is approved by the County and the City) and carrying out all activities of the Commission. The Alma City Manager is responsible for the day to day administration and supervision of airport operations and has a contractual agreement with Three Point Aviation for management services. The City Commission must approve all expenditures over \$1,500.

The County and the City are each responsible for funding 50% of the operational deficits. The land and other property acquired during the term of the agreement are held by the County and the City as tenants in common in such proportions as their contributions in the year of acquisition.

The City maintains the accounting records for the Gratiot Community Airport Commission. More details of the Commission are presented at the end of the individual fund statements. The Gratiot Community Airport Commission is a proprietary fund type and does not produce separate financial statements.

Gratiot County Central Dispatch Authority is a joint venture between Gratiot County, the State of Michigan, and the Cities of Alma, St. Louis, Ithaca and Breckenridge. The Authority provides emergency dispatch services for all police, fire and rescue services in Gratiot County. The governing board is comprised of 11 members. Gratiot County appoints six board members: the County Sheriff, one township representative, one village representative, one county citizen, and two county commissioners. Each other unit appoints one board member. The Authority is responsible for preparing the annual budget (which must also be approved by Gratiot County) and carrying out all activities of the Authority.

The Authority receives funding from telephone surcharge fees and local contributions. A formula has been established to allocate the local contributions. The financial activities of Gratiot County Central Dispatch Authority are reported in Gratiot County's financial statements as a component unit. Gratiot County Central Dispatch is on an October 1 to September 30, fiscal year. The City has no equity interest in the Dispatch Authority. There are no separate financial statements produced for Gratiot County Central Dispatch Authority. Copies of Gratiot County financial statements can be obtained by writing:

Ms. Mary Sullivan, County Treasurer
Gratiot County
P.O. Drawer 437
Ithaca, Michigan 48847

(iv) Joint Operation

Mid-Michigan Area Cable Communications Consortium is a joint operation between twelve mid-Michigan communities with cable franchises granted to Charter Communications Inc. The twelve communities include the Cities of Alma, Clare, Harrison, Ithaca, Mt Pleasant and St Louis, the Villages of Breckenridge, North Star and Shepherd, and the Townships of Arcada, Pine River and The Charter Township of Union. The Consortium is responsible for developing, monitoring, and enforcing the cable ordinance, negotiating and monitoring cable franchise agreements, and, to the extent permitted by federal law, regulating cable rates. The Consortium is responsible for the operation of the public, education and government access channels. Each community is permitted two members of the governing board. The Consortium is responsible for preparing the annual budget.

A formula has been established to allocate the local contributions. There were no local contributions in fiscal year 2005-2006. The Consortium is on a January 1 to December 31, fiscal year and produces separate financial statements. Copies of Mid-Michigan Area Cable Communication Consortium financial statements can be obtained by writing:

Ms. Jan Howard, Executive Director
Mid-Michigan Area Cable Consortium

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

312 West Michigan Street
Mt. Pleasant, MI. 48858

(B) GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government of the City of Alma and its component units. For the most part, the effect of inter-fund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. The primary government of the City of Alma is reported separately from certain legally separate component units for which the City of Alma is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other items not properly included as program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. The Agency fund does not have a measurement focus; however it is subject to the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the grantor have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to offset liabilities of the current period. The City of Alma considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, except debt service expenditures, compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, intergovernmental revenues, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

The City of Alma reports the following major governmental funds:

The General Fund is the City's primary operating fund used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund accounts for the receipt of allocated state shared gas and weight taxes. The expenditure of these funds is restricted to City of Alma streets that have been designated as major by the Michigan Department of Transportation.

The Alma District Fire Department Fund accounts for the activities related to the cost of providing fire protection services to the City of Alma and the townships of Arcada, Pine River, Seville and Sumner. Contributions to the cost of providing services are distributed to the units by a contractually specified formula.

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

The City of Alma reports the following major proprietary funds:

The State Street Plaza Fund accounts for the rental facilities owned and leased by the City.

The Transit Services Fund accounts for the activities of the demand response bus system operated by the City of Alma. The system is supported by federal and state grants, local tax dollars and user fees.

The Wastewater Utility Fund accounts for the activities related to the collection and purification of wastewater.

The Water Utility Fund accounts for the activities related to water production, purification, and distribution.

The Solid Waste Disposal Fund accounts for the activities of collection and disposal of household waste, recyclables, and yard waste.

Additionally, the City of Alma reports the following fund types:

Internal Service Funds are used to account for public works services, fleet maintenance, equipment replacement, engineering services, information systems, accounting, retiree medical insurance, and buildings and grounds maintenance services provided to other departments on a cost reimbursement basis.

The Agency fund is used to collect and distribute State of Michigan, Gratiot County, Alma Public Schools, and Gratiot Isabella Regional Educational School District property tax monies.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Alma has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions are charges between the Water Fund, Wastewater Fund, the Solid Waste Fund and other functions and segments and payment in lieu of taxes from the Alma Housing Commission. Elimination of these charges would distort the direct costs and program revenues for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, including special assessments, 2) operating grants and contributions, and 3) capital grants and contributions. All taxes are reported as general revenue. Examples of program revenues include:

- Cemetery lot sales
- Building permits
- Cable franchise fees
- Fire protection services
- Park shelter reservation fees
- Charges for police and fire incident reports

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City of Alma's policy to use restricted resources first. Unrestricted resources are used as they are needed.

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

(D) BUDGETS AND BUDGETARY ACCOUNTING

Under City Charter, the following budget procedures must be followed:

1. The fiscal year shall begin on July 1 and end on June 30th of each year.
2. The City Manager shall submit a proposed operating budget to the City Commission by April 20.
3. A public hearing must be held before the budget is adopted. The budget hearing must be properly noticed seven days before the hearing.
4. The City Commission must adopt the budget by resolution no later than June 1.

Formal budgetary integration is employed as a management control device for all funds except the Agency Fund, permanent funds and a special revenue fund, Public Safety Employee Benefit Fund. The budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriation budgets are adopted for the General, Special Revenue, Debt Service, Enterprise and Internal Service Funds. All annual appropriations lapse at fiscal year-end. Project length financial plans are adopted for all Capital Project Funds. In addition, the City Commission approves budgets for two component units: the Alma Public Library and the Alma Downtown Development Authority.

Michigan Public Act 621 governs adoption and amendment of all budgets used by the City. The City was in compliance with Public Act 621 in fiscal year 2005-2006. Public Act 621 requires the City Commission to approve any revisions that alter the total expenditures of any fund. The budget for the General Fund is adopted at the activity level. All other budgets are approved at the fund level. The City Commission must approve any revision that alters the total expenditures above the legal level. For management purposes, the City develops a more detailed budget. The City Manager, or his designee, is authorized to transfer budgeted amounts within these functional areas.

Budgeted amounts are as originally adopted or as amended by the City Commission on June 27, 2006. For the year ending June 30, 2006, the differences in original budget to final budget are displayed in the following table.

Fund Type	Original Budget	Final Budget	Difference
General Fund	\$4,647,010	\$4,121,538	\$(495,472)
Special Revenue	1,943,195	2,040,305	97,110
Debt Service	177,950	177,950	-0-
Enterprise	3,210,831	3,375,831	65,000
Internal Service	2,731,775	2,731,775	-0-
Component Units	529,665	593,845	64,180
Joint Ventures	955,665	955,665	-0-

The General Fund budget was amended to decrease the Economic Development budget for riverfront demolition work contracted for in the next fiscal year and to decrease the Contribution to Gratiot Community Airport to match the Gratiot County contribution. The General Fund was amended to increase the Street Lighting budget for replacement of a street light damaged by a vehicle, the Community Center budget was amended for activity resulting from the transfer of building ownership from Alma Public Schools, the City Manager budget for salaries and Debt Service for additional interest allocation. Several General Fund activities finished the fiscal year over the amended budget: Police was over budget by \$8,988, Street Lighting was over budget by \$2,047, Economic Development was over budget by \$10,297, Community Center was over budget by \$257,377, and Transfers Out by \$172,875. The Major Streets Fund was over budget by \$64,363.

(E) ENCUMBRANCES

Encumbrances represent commitments to unperformed contracts for goods and services. Encumbrances outstanding at year end lapse and are generally re-appropriated as part of the following year's budget.

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

F) RECEIVABLES

Receivables have been recognized for all significant amounts due the City. No allowances have been made for uncollectible amounts in the funds because most delinquent receivables can be added to the tax roll and become a lien against the property. Allowances for uncollectible personal property taxes have been made in the government-wide financial statements.

(G) INVENTORIES AND PREPAID ITEMS

Inventories of proprietary funds are valued at lower of cost (first-in, first-out) or market. Governmental funds have no inventories recorded; materials are expensed when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

(H) CAPITAL ASSETS

Capital assets include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, and sidewalks) and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Alma as tangible assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of two years. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statements of net assets.

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

Asset Class	Depreciable life
Land	N/A
Land improvements	10-20 Years
Buildings	10-40 Years
Equipment	5-20 Years
Vehicles	3-10 Years
Utility Systems	10-40 Years
Streets	25 Years
Bridges	25 Years
Sidewalks	50 Years
Library books	20 Years

(I) LONG-TERM OBLIGATIONS

In the government-wide financial statements and fund financial statements of proprietary fund types, long term debt and obligations are reported as liabilities in the applicable statement of net assets. Bond premiums, discounts, and issuance costs, are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements of governmental fund types, bond premiums, discounts, and issuance costs are reported in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt received, are reported as debt service.

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

(J) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

(K) PROPERTY TAXES

City property taxes are assessed as of December 31 and attached as an enforceable lien on property as of July 1 of the following year. The taxes are due without penalty on or before September 15. Real property taxes not collected at March 1 are turned over to Gratiot County for collection. The County advances the City 100% of the delinquent taxes on real property. The City Treasurer is responsible for collecting delinquent personal property taxes, delinquent property taxes on leased land and delinquent industrial facilities property taxes. The City considers property taxes both measurable and available when they are levied on July 1 and recognizes property tax revenue at that time.

The City acts as a collection agent for Gratiot County, Alma Public Schools, and the Gratiot-Isabella Intermediate School District property taxes. Taxes collected on behalf of other units are remitted to those units following collection. The tax collections are received and distributed from an agency fund.

The City collects a 1% property tax administration fee.

(L) COMPARATIVE DATA

Comparative total data for the prior year have been presented in certain accompanying financial statements to provide an understanding of the changes in the City's financial position and operation. However, to facilitate ease of reading, comparative data (i.e. presentation of prior year's data by fund type) have not been displayed in each of the statements. Their inclusion would make the statements unduly complex.

(N) COMPENSATED ABSENCES

The City allows employees to accumulate unused sick leave to a maximum of 720 hours. Sick leave is paid only upon illness while in the employ of the City. Sick leave is not paid upon termination. No provision is made for non-vesting sick leave due to the uncertainty of actual amounts, which may eventually have to be paid.

Earned vacation leave is required to be used within two years of accrual with a maximum carryover of 120 hours. Earned vacation leave is paid upon termination. Accumulated unpaid vacation pay is accrued when incurred in the government wide financial statements and in proprietary fund financial statements.

(O) DEPOSITS AND INVESTMENTS

Cash equivalents are defined as all highly liquid investments (including restricted assets) with a maturity of three months or less at time of purchase. All investments are reported at fair value.

(P) RESTRICTED ASSETS

Certain proceeds of the Water Utility Fund's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS

(A) RECONCILIATION OF DEPOSITS AND INVESTMENTS

A reconciliation of cash, pooled investments and investments as shown in the basic financial statements to the City's deposits and investments is as follows:

Government-wide Financial Statement Captions:

Primary Government:		
Cash and cash equivalents	\$	3,535,438
Investments		7,608,230
Restricted cash		193,672
Component Units:		
Cash and cash equivalents		4,415,070
Investments		487,797
Restricted cash		29,526
Fiduciary Fund Financial Statement Captions:		
Cash and cash equivalents		25,411
Investments		157,884
Joint Venture Financial Statement Captions:		
Cash and cash equivalents		18,228
Investments		113,254
Total	\$	16,584,510

Notes to Financial Statements:

Deposits	\$	14,536,952
Investments		1,978,501
Cash on Hand		1,455
MMRMA Risk Retention Fund		67,602
Total	\$	16,584,510

B) DEPOSITS

For deposits custodial credit risk is the risk that in the event of a bank failure, the government may lose its deposits in that bank. The City's investment policy restricts the amount of deposits in any one financial institution to 50% of the City's total deposits. At June 30, 2006, the carrying amount of the City's deposits was \$14,536,951 and the bank balance was \$15,131,735. Of the bank balance, \$12,759,350 was uninsured and uncollateralized.

Following an Attorney General Opinion, the City restricts its deposits to banks, savings and loan associations or credit unions having their principal office in the State of Michigan. The City Commission has authorized the following financial institutions as depositories for the City of Alma: Firstbank and all holding companies, Commercial Bank, Chemical Bank, National City Bank, LaSalle Bank, Edward Jones Inc., First of America, Flagstar Bank, Citizens Republic, MBIA, Wolverine Bank, Independent Bank, Comerica Bank and Fifth Third Bank.

C) INVESTMENTS

Under its investment policy, which follows State statutes, the City restricts its investments to bonds, bills, or notes of the United States; commercial paper rated prime; securities issued or guaranteed by agencies or instrumentalities of the United States; United States government federal agency obligation repurchase agreements composed of eligible collateral whose fair value must be maintained equal to or greater than amounts advanced, and with an undivided interest; bankers' acceptances; and mutual funds and investments pools that are composed entirely of the aforementioned investments that are legal for direct investment by a city.

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

As of June 30, 2006 the City of Alma had the following investments:

Investment	Weighted Average Maturity	Fair Value	Ratings
U.S. Treasury Bills	97 days	\$1,366,987	N/A
MBIA Class	N/A	\$ 611,514	AAA/V1+; Fitch
Total Investments		\$1,978,501	

Interest Rate Risk

Unless matched to a specific cash flow, the City's investment policy restricts investments to one year for governmental fund types, two years for enterprise fund types, and five years for endowment funds.

Credit Risk

The City's investment policy restricts investment in commercial paper to the top investment rating provided by two nationally recognized rating agencies at the time of purchase and requires immediate sale if the principal invested becomes jeopardized. City of Alma is not invested in commercial paper. The City's investments have not been rated by a rating agency; however, U.S. Treasuries are guaranteed by the Federal Government of the United States.

Concentration of Credit Risk

The City of Alma uses common checking accounts for several of the operating funds. Each fund's share of the cash balance is reported separately. Surplus funds are invested throughout the year. The City allocates interest earnings in relation to the average cash balance of each fund. Investments are carried at cost as declines in fair values are considered temporary except for investments where the term is for more than twelve months or in the case of mutual funds. Investments in long term investments and mutual funds are recorded at fair value.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the City's investments are in US Government instruments or securities guaranteed by the US Government.

NOTE 3 - PENSION PLANS

(A) Municipal Employees Retirement System of Michigan (MERS)

The City of Alma has a defined benefit plan covering all full-time employees. The plan is operated by the Municipal Employees Retirement System (MERS), which is an agent multiple-employer retirement system. MERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to:

Municipal Employees Retirement System of Michigan
447 Canal Road
Lansing, MI 48917

The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Benefits vest after 10 years of service. Normal retirement is based on one of the following requirements:

1. Age 60 with 10 or more years of service.
2. Age 55 with 15 or more years of credited service.
3. Age 50 with 25 or more years of credited service.

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

Employees who retire after reaching the qualifying age and years of service are entitled to 2.25% of that member's 3 year final average compensation (FAC) times the number of years of credited service for that member.

The retirement allowance is reduced for employees who retire after reaching requirements two or three by .2 of 1% for each complete month that retirement proceeds the age of 60. Police officers may retire at age 55 with 25 or more years of service without having the retirement allowance reduced. Pension provisions include allowances whereby an employee may terminate employment with the City after accumulating 10 years of service but before reaching age 60 (age 55 or 50 in certain cases). If the employee does not withdraw his or her accumulated contributions, the employee is entitled to all pension benefits upon reaching retirement age as discussed above.

Pension provisions include death and disability benefits. A disabled employee is entitled to full benefits after acquiring 10 or more years of credited service. A surviving spouse is entitled to receive 85% of the employee's straight-line life allowance. Children are entitled to 50% of the straight life allowance.

Funding Policy. For the non-union employees, the City Commission has established an employee contribution rate of 5.5% of gross wages to maintain the system. Under an agreement negotiated with the police union, the unionized employees also contribute 5.5% of the employee's gross wages towards the maintenance and operation of the pension program.

Actuarial Assumptions. The actuarial information presented in the required supplementary information was based on the assumptions included below:

Variable	Assumption
Valuation Date	December 31, 2005
Actuarial cost method	Entry age normal cost
Amortization method	Level percentage; open
Amortization period	30 years
Asset valuation method	5-year smoothed market
Investment rate of return	8%
Projected salary increases*	12.9% to 4.5%
* Includes inflation at	4.5%
Cost-of-living adjustments	None

Annual Pension Cost. During the fiscal year ended June 30, 2006 the employees contributed \$151,073 and the City contributed \$12,067 to the plan. The pension numbers included are based on the December 31, 2005 actuarial report. Three-year trend information is presented below:

	Fiscal year beginning July 1,		
	2005	2004	2003
Annual required contribution (ARC)	\$ 101,712	\$ 98,316	\$ 99,250
Accelerated Funding Credit	\$ 51,756	\$ 61,920	\$ 70,944
Net required contribution	\$ 49,956	\$ 36,396	\$ 28,308
Percentage of ARC contributed	100.0%	100.0%	100.0%
Net pension obligation	\$ -0-	\$ -0-	\$ -0-
	Actuarial Valuation dated December 31,		
	2005	2004	2003
Actuarial value of assets	\$ 15,709,223	\$ 15,402,864	\$ 14,988,769
Actuarial Accrued Liability	\$ 15,745,190	\$ 15,531,838	\$ 14,174,229
Unfunded Accrued Liabilities	\$ 35,967	\$ 128,974	\$ (814,540)
Funded ratio	100.0%	99.2%	106.0%
Covered payroll	\$ 2,912,728	\$ 2,985,693	\$ 2,807,398
UAL as a percentage of Covered Payroll	1.0%	4.0%	(29.0)%

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

(B) Police Defined Contribution Plan

The Police Defined Contribution Plan is a defined contribution pension plan administered by the ICMA Retirement Corporation through MERS. All full-time sworn union police officers hired after July 28, 1997 received the defined contribution plan instead of the defined benefit plan. As of June 30, 2006 nine officers were participating in the defined contribution plan. Under the contract agreement, the employees contribute 4.65% of gross compensation and the City contributes 5.85% of gross compensation. Over the past year, the employees contributed \$17,317 and the City contributed \$21,786 to the plan. Plan provisions and contribution requirements are established through negotiation between the City and the police unions. The plan can be amended by mutual agreement of the City and the unions.

Middle Tier Police Officers Plan

The Middle Tier Police Officers Plan is a 401A defined contribution plan administered by the ICMA Retirement Corporation. This plan covered all full-time police officers that were hired by July 27 1997 and had less than 20 years of service and were not age 50 or older. This is a supplemental pension plan that is not currently receiving contributions from either the employees or the City. Plan provisions and contribution requirements are established through negotiation between the City and the police unions. The plan can be amended by mutual agreement of the City and the unions.

NOTE 4 - OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 3, the City provides post-employment benefit options for health care to eligible retirees and their dependents. The eligibility criteria include employee age, vesting in the pension system and disability status. The retirees of the police union participate under the terms of the union contract. The general employee retirees receive the benefit as part of the personnel policy approved by the City Commission. The City funds the benefits on a pay as you go basis. Eligible employees are required to pay the premium for their portion of the costs. There are 22 retirees and 15 dependents currently eligible. Expenses for post-retirement health benefits are recognized, as insurance premiums are due. Retirees pay 100% of the cost of their health plan.

NOTE 5 - CAPITAL ASSETS

A summary of changes in governmental activity capital assets including internal service fund capital assets are as follows:

Governmental Activities	June 30, 2005	Additions	Deletions	June 30, 2006
Land	\$ 1,355,163	119,409	-0-	\$ 1,474,572
Construction in process	498,492	968,804	(1,304,051)	163,245
Capital assets not being depreciated	1,853,655	1,088,213	(1,304,051)	1,637,817
Land Improvements	1,129,244	-0-	-0-	1,129,244
Streets and bridges	14,693,401	1,667,834	-0-	16,361,235
Sidewalks	995,913	-0-	-0-	995,913
Buildings	1,945,424	369,744	-0-	2,315,168
Equipment	2,082,462	80,440	(143,905)	2,018,997
Vehicles	2,060,255	707,622	-0-	2,767,877
Capital assets being depreciated	22,906,699	2,825,640	(143,905)	25,588,434
Less: Accumulated depreciation				
Land improvement	(437,691)	(57,840)	-0-	(495,531)
Streets and bridges	(5,839,273)	(513,934)	-0-	(6,353,207)
Sidewalks	(211,210)	(19,949)	-0-	(231,159)
Buildings	(1,249,067)	(74,043)	-0-	(1,323,110)

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

Equipment	(1,565,936)	(150,613)	133,811	(1,582,738)
Vehicles	(1,380,849)	(172,649)	-0-	(1,553,498)
Total accumulated depreciation	(10,684,026)	(989,028)	133,811	(11,539,243)
Net capital assets being depreciated	12,222,673	1,836,612	(10,094)	14,049,191
Total Net Capital Assets	\$ 14,076,328	\$ 2,924,825	\$ (1,314,145)	\$ 15,687,008

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

<u>Governmental Activity</u>	<u>Amount</u>
Community Development	\$ 2,262
Community Safety	66,464
Property Maintenance	42,631
Transportation	533,894
Recreation and Cultural	73,610
Legislative	2,743
Administrative	2,077
Internal service funds charged to above activities	265,347
Total depreciation expense-governmental activities	<u>\$ 989,028</u>

A summary of changes in capital assets for business-type activities is presented below:

Business-type activities	June 30, 2005	Additions	Deletions	June 30, 2006
Land	\$ 213,090	\$ -0-	\$ -0-	\$ 213,090
Construction in process	1,377,302	2,609,388	(3,119,363)	867,327
Capital assets not being depreciated	1,590,392	2,609,388	(3,119,363)	1,080,417
Land improvements	156,078	-0-	-0-	156,078
Buildings	4,696,956	2,993,549	-0-	7,690,505
Equipment	2,063,304	54,659	(42,516)	2,075,447
Utility Systems	6,859,654	444,094	-0-	7,303,748
Capital assets being depreciated	13,775,992	3,492,302	(42,516)	17,225,778
Total capital assets	15,366,384	6,101,690	(3,161,879)	18,306,195
Less: accumulated depreciation:				
Land improvements	(136,020)	(5,001)	-0-	(141,021)
Buildings	(4,105,718)	(68,952)	-0-	(4,174,670)
Equipment	(1,242,181)	(102,847)	42,516	(1,302,512)
Utility systems	(4,095,318)	(202,390)	-0-	(4,297,708)
Total accumulated depreciation	(9,579,237)	(379,190)	42,516	(9,915,911)
Net capital assets being depreciated	4,196,755	3,113,111	-0-	7,309,866
Total Net Capital Assets	\$ 5,787,147	\$ 5,722,500	\$ (3,119,363)	\$ 8,390,284

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

<u>Business-Type Activity</u>	<u>Amount</u>
State Street Plaza	\$ 26,461
Alma Transit	82,037
Wastewater Utility	93,887
Water Utility	176,147
Solid Waste Disposal	658

Total Business-type activity \$ 379,190

Summaries of changes in capital assets for component units and the joint venture have been summarized in the tables below:

Downtown Development Authority

The summary of the changes in capital assets associated with Alma Housing Commission is presented below:

Downtown Development Authority	June 30, 2005	Additions	Deletions	December 31, 2005
Land	\$ -0-	\$ 8,000	\$ -0-	\$ 8,000
Buildings and improvements	-0-	12,000	-0-	12,000
Less: Accumulated depreciation	-0-	(50)	-0-	(50)
Net Capital Assets	\$ -0-	\$ 19,950	-0-	\$ 19,950

Alma Public Library

From FY 1992 to present, additions to the library collection are actual cost. Prior to FY1992, the additions to the library collection are stated at estimated historical cost. A summary of the capital asset activity for the Alma Public Library is displayed in the table below:

Alma Public Library	June 30, 2005	Additions	Deletions	June 30, 2006
Land	\$ 25,000	\$ -0-	\$ -0-	\$ 25,000
Construction in progress	239,604	449,981	-0-	689,585
Capital assets not being depreciated	264,604	449,981	-0-	714,585
Land Improvements	6,221	-0-	-0-	6,221
Buildings	417,336	-0-	-0-	417,336
Collection	883,073	28,730	-0-	911,803
Office furniture/equipment	180,894	-0-	-0-	180,894
Capital assets being depreciated	1,487,524	28,730	-0-	1,516,254
Total capital assets	1,752,128	478,711	-0-	2,230,839
Less: Accumulated depreciation				
Land Improvements	(985)	(311)	-0-	(1,296)
Buildings	(239,488)	(9,206)	-0-	(248,694)
Collection	(519,867)	(43,879)	-0-	(563,746)
Office furniture/equipment	(176,266)	(3,018)	-0-	(179,284)
Total accumulated depreciation	(936,606)	(56,414)	-0-	(993,020)
Net Capital Assets	\$ 815,522	\$ 422,297	\$ -0-	\$ 1,237,819

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

Alma Housing Commission

The summary of the changes in capital assets associated with Alma Housing Commission is presented below:

Alma Housing Commission	December 31, 2004	Additions	Deletions	December 31, 2005
Land and improvements	\$ 920,321	\$ 3,367	\$ -0-	\$ 923,688
Buildings and improvements	4,877,695	14,850	-0-	4,892,545
Equipment	339,658	77,798	(2,668)	414,788
Less: Accumulated depreciation	(3,505,775)	(217,432)	2,668	(3,720,539)
Net Capital Assets	\$ 2,631,899			\$ 2,510,482

Gratiot Community Airport

A summary of the changes in capital assets associated with the Gratiot Community Airport is presented below:

Gratiot Community Airport	June 30, 2005	Additions	Deletions	June 30, 2006
Land	\$ 208,000	\$ -0-	\$ -0-	\$ 208,000
Construction in progress	6,887	394,316	(401,203)	-0-
Capital assets not being depreciated	214,887	394,316	(401,203)	208,000
Land Improvements	52,184	425,117	-0-	477,301
Buildings	557,498	-0-	-0-	557,498
Equipment	40,976	-0-	-0-	40,976
Capital assets being depreciated	650,658	425,117	-0-	1,075,775
Total capital assets	865,545	819,433	(401,203)	1,283,775
Less: Accumulated depreciation				
Land Improvements	(19,289)	(18,668)	-0-	(37,957)
Buildings	(338,833)	(18,891)	-0-	(357,724)
Equipment	(40,802)	(174)	-0-	(40,976)
Total accumulated depreciation	(398,924)	(37,733)	-0-	(436,657)
Net capital assets being depreciated	251,734	387,384	-0-	639,118
Total Net Capital Assets	\$ 466,621	\$781,700	\$(401,203)	\$ 847,118

NOTE 6 - CHANGES IN LONG-TERM DEBT

The following summaries relate to long-term debt transactions of the primary government and discretely presented component units for the year ended June 30, 2006:

Primary Government	At July 1, 2005	Additions	Deductions	At June 30, 2006
Water Revenue Bonds	\$ 330,000	\$ -0-	\$ (60,000)	\$ 270,000
General Obligation Bonds	2,310,000	2,500,000	(140,000)	4,670,000
Special Assessment Bonds	300,000	-0-	(75,000)	225,000
Notes Payable	175,000	-0-	(40,000)	135,000

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

Compensated Absences	295,055	138,328	(143,946)	289,437
As of June 30, 2006	\$ 3,410,055	\$ 2,638,328	\$ (458,946)	\$ 5,589,437

Component Units	At July 1, 2005	Additions	Deductions	At June 30, 2006
General Obligation Bonds	\$ 3,500,000	\$ -0-	\$(125,000)	\$ 3,375,000
Compensated Absences	63,707	39,702	(34,776)	68,633
As of June 30, 2006	\$ 3,563,707	\$ 39,702	\$ (159,776)	\$ 3,443,633

Long-term debt at June 30, 2006 is comprised of the following individual issues:

Business-type Activities	Balance at July 1, 2005	Additions	(Deductions)	Balance at June 30, 2006	Due within one year
\$750,000 1995 Water System Revenue Bonds. Bonds due in annual installments of \$55,000 to \$75,000 through May 1, 2010; interest at 4.7% to 5.4%. The Statement of Net Assets also includes accrued interest of \$2,367 and \$3,055 in unamortized bond discount.	\$ 330,000 Discount (3,818)	-0-	\$ (60,000) 763	\$ 270,000 (3,055)	\$ 60,000 (763)
\$2,000,000 2005 Capital Improvement Limited Tax General Obligation Bonds. Bonds due in annual installments of \$70,000 to \$145,000 through May 1, 2025; interest at 3.75% to 4.3%. The Statement of Net Assets also includes accrued interest of \$12,722 and \$20,539 in unamortized bond discount.	2,000,000 Discount(21,620)	-0-	(70,000) 1,081	1,930,000 (20,539)	70,000 (1,081)
\$2,500,000 2005 Capital Improvement Limited Tax General Obligation Bonds. Bonds due in annual installments of \$80,000 to \$180,000 through May 1, 2026; interest at 3.2% to 5.3%. The Statement of Net Assets also includes accrued interest of \$19,027 and \$29,688 in unamortized bond discount.	-0- Discount	2,500,000 (31,250)	-0- 1,563	2,500,000 (29,687)	80,000 (1,563)
Compensated absences	75,305	51,616	(40,664)	86,257	47,076
Total Business-type Activities	\$ 2,379,867	\$ 2,520,366	\$ (167,257)	\$ 4,732,976	\$ 253,669

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

Governmental Activities	Balance as of July 1, 2005	Additions	(Deductions)	Balance as of June 30, 2006	Due within one year
\$375,000 - 2000 Installment Purchase Contract with National City Bank for the acquisition of property for the extension of Heather Lane; interest at 4.93%; General Fund	\$ 175,000	-0-	\$ (40,000)	\$ 135,000	\$ 45,000
\$615,000 General Obligation Bonds Series 2000 A for street construction. Bonds due in annual installments of \$55,000 to \$85,000 through May 2009; interest 4.90% to 5.40; Debt Service Fund	310,000	-0-	(70,000)	240,000	75,000
\$675,000 Special Assessment Bonds, Series 2000 A for street and utility construction. Bonds due in annual installments of \$75,000 through May 2009; interest 4.90% to 5.40%; City has pledged full faith and credit of the City; Debt Service Fund	300,000	-0-	(75,000)	225,000	75,000
Compensated absences	219,750	86,712	(103,282)	203,180	97,043
Total Governmental Activities	\$ 1,004,750	\$ 86,712	\$ (288,282)	\$ 803,180	\$ 292,043

Component Units	Balance as of July 1, 2005	Additions	(Deductions)	Balance as of June 30, 2006	Due within one year
Downtown Development Authority- Compensated absences	\$ 2,625	\$ 546	\$ (551)	\$ 2,620	\$ 563
Public Library- Compensated absences	33,434	14,514	(14,042)	33,906	14,375
\$3,500,000 General Obligation Unlimited Tax Bonds for Library Construction. Bonds due in annual installments of \$125,000 to \$250,000 through June 2025; interest 4% to 4.35%.	3,500,000 Discount(35,000)	-0- -0-	(125,000) 1,750	3,375,000 (33,250)	125,000 (1,750)
Alma Housing Commission- Compensated absences	27,648	9,914	(16,312)	21,250	12,713
Total Component Units	\$ 3,528,707	\$ 24,974	\$ (154,155)	\$ 3,399,526	\$ 150,901

The annual requirements to pay future principal and interest are as follows:

Year Ending June 30,		Revenue Bonds	General Obligation Bonds	Special Assessment Bonds	Purchase Contract	Total
2007	Principal	60,000	350,000	75,000	45,000	530,000
	Interest	14,200	338,043	11,925	6,652	370,820
	Total	74,200	688,043	86,925	51,652	900,820
2008	Principal	65,000	370,000	75,000	45,000	555,000
	Interest	11,140	313,618	8,025	4,435	337,218
	Total	76,140	683,618	83,025	49,435	892,218

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

2009	Principal	70,000	385,000	75,000	45,000	575,000
	Interest	7,760	298,177	4,050	2,217	312,204
	Total	77,760	683,177	79,050	47,217	887,204
2010	Principal	75,000	310,000			385,000
	Interest	4,050	281,888			285,938
	Total	79,050	591,888			670,938
2011	Principal		315,000			315,000
	Interest		269,688			269,688
	Total		584,688			584,688
2012	Principal		330,000			330,000
	Interest		257,288			257,288
	Total		587,288			587,288
2013	Principal		345,000			345,000
	Interest		244,301			244,301
	Total		589,301			589,301
2014	Principal		360,000			360,000
	Interest		230,671			230,671
	Total		590,671			590,671
2015	Principal		375,000			375,000
	Interest		216,451			216,451
	Total		591,451			591,451
2016	Principal		385,000			385,000
	Interest		201,640			201,640
	Total		586,640			586,640
2017 to 2021	Principal		2,200,000			2,200,000
	Interest		763,460			763,460
	Total		2,963,460			2,963,460
2022 to 2025	Principal		2,320,000			2,320,000
	Interest		270,793			270,793
	Total		2,590,793			2,590,793
Total	Principal	270,000	8,045,000	225,000	135,000	8,675,000
	Interest	37,150	3,686,018	24,000	13,304	3,760,472
	Total	307,150	11,731,018	249,000	148,304	12,435,472

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions. Internal service funds predominantly serve the governmental funds. Accordingly, compensated absences for them are included as part of the above totals for governmental activities. Compensated absences are generally liquidated by the general fund.

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

NOTE 7 -- INTERFUND RECEIVABLES AND PAYABLES

	Due from Other Funds
General Fund – construction loans	\$ 212,000
Pine Avenue Extension – elimination of fund deficit	28,216
Street Millage – water, sewer construction, elimination of fund deficit	83,475
Water Utility – invoices and bond costs	17,626
Administrative Services Fund – invoices	500
Municipal Services Fund – invoices	1,560
	Due to Other Funds
General Fund – invoices, elimination of fund deficits	\$36,240
Local Street Fund – street construction	2,455
Housing Rehabilitation Fund – ADR home acquisitions	130,000
Pine Avenue Extension – construction loan	65,000
Street Millage – construction loan	17,000
Wastewater Utility – invoice, sewer construction, bond costs	35,691
Water Utility – water main construction	56,591
Municipal Services Fund – invoice	400

During the year, the following transfers and contributions were made between funds:

From General Fund	
To Fire Fund - for operations	\$ 288,653
To Heather/Warwick GO Debt - for debt service	87,200
To Park Construction - for Phase IV Riverwalk	80,000
To Pine Avenue Extension – for construction	163,916
To Two-Way Street Conversion – to close fund	13,927
To Street Millage Fund – to eliminate fund deficit	5,964
From Major Street Fund	
To Local Street Fund - for operations	80,000
From Cemetery Endowment Fund	
To General Fund - for operations	13,600
Total transfers between funds	<u>\$ 733,260</u>

NOTE 8- RECEIVABLES

Receivables of the primary government have been disaggregated in the table below. All major funds have been shown individually; non major funds are shown in the other line. The agency fund had \$1 in interest receivable.

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

	Taxes	Utilities	Accounts	Interest	Special Assessment	Development Agreements	Inter-governmental	Total
General Fund	\$67,167	\$ -0-	\$262,269	\$45,002	\$83,184	\$41,424	\$421,576	\$920,622
Major Streets Fund	-0-	-0-	6,718	14,696	-0-	40,896	99,728	162,038
Alma Fire District	-0-	-0-	-0-	2,596	-0-	-0-	-0-	2,596
State Street Plaza	-0-	-0-	-0-	10,036	-0-	-0-	-0-	10,036
Transit	1,209	-0-	-0-	15,085	-0-	-0-	22,061	38,355
Wastewater Utility	-0-	119,265	4,719	10,345	7,294	43,034	16,854	201,511
Water Utility	-0-	192,501	7,769	2,015	27,308	-0-	-0-	229,593
Solid Waste Disposal	-0-	76,977	-0-	4,990	-0-	-0-	-0-	81,967
Other	16,449	-0-	53,969	42,194	130,128	-0-	137,164	379,904
Totals	\$84,825	\$388,743	\$335,444	\$146,959	\$247,914	\$125,354	\$697,383	\$2,026,622

Delinquent utility bills are placed as a lien against the property and collected in the next year with the property taxes. At the end of the fiscal year the following components of the receivables are not anticipated to be collected within one year in governmental funds:

	General Fund	Heather/Warwick Special Assessment	Other	Total
Delinquent Taxes	\$ 54,899	\$ -0-	\$ 14,432	\$ 69,331
Special Assessments	67,229	54,163	-0-	121,392
Development Agreements	37,050	-0-	37,895	74,945
Lease Receivable	32,000	-0-	-0-	32,000
Totals	\$ 191,178	\$ 54,163	\$ 52,327	\$ 297,668

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risk of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City is a member of Michigan Municipal Risk Management Authority, a public entity risk pool of cities, counties, authorities, colleges and other local units of government. MMRMA had approximately 346 members as of June 30, 2004. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services for general and automotive liability, motor vehicle physical damage, and property; purchase or otherwise make other provisions for reinsurance, excess insurance or make other provisions for payment of losses and related expenses; and provide claims, legal defense and related general administrative services to members.

The Authority is governed by a nine member Board of Directors composed of local government representatives from the membership elected by the membership. The Board of Directors establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered to impose sanctions or terminate membership.

The City's maximum retention on general liability and auto liability is \$75,000 per occurrence. The retention limit on auto physical damage is \$15,000 per unit and \$30,000 per occurrence after a \$1,000 deductible. The retention limits for property coverage are subject

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

to a \$1,000 deductible with 10% of the first \$100,000 to be paid by the City. At June 30, 2006, the City had funds on deposit of \$67,602 with the Authority in the Member Risk Retention Fund. The City's member reserve for claims related to the City was \$9,000 at June 30, 2006. Claims have not exceeded coverage in any of the prior three fiscal years.

The City used a risk management program for risks associated with the employees' dental insurance program and for a portion of the deductible associated with health insurance program. For employees that selected the Plan B health insurance, the City self-funds the \$400 deductible. A premium is charged to each fund that accounts for full-time employees. The total cost allocated to each of the funds (allocation is based upon the percentage of each fund's current-year payroll of the City) is calculated using trends in actual claims experience. Liabilities of the program are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. All liabilities are considered current and have not been discounted. The maximum out of pocket cost for the City is \$1,000 for each eligible employee and qualified dependant. Liabilities include an amount for claims that have been incurred but not yet reported (IBNRs).

	Fiscal Year 2006	Fiscal Year 2005
Amount of claim liability at July 1	\$ 5,000	\$ 5,000
Incurred claims	96,153	76,337
Payment on claims	(96,153)	(76,337)
Other material items	-0-	-0-
Amount of claim liability at June 30	\$ 5,000	\$ 5,000

Claims have not exceeded insurance coverage in any of the prior three fiscal years.

NOTE 10 - CONTINGENCIES AND COMMITMENTS

(A) GRANTS AND REIMBURSEMENTS

The City has received federal and state grants for specific purposes subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursement would not be material.

(B) POTENTIAL LITIGATION

At June 30, 2006 there are no pending legal actions against the City.

(C) CONSTRUCTION COMMITMENTS

At June 30, 2006, the City has the following construction commitments:

Isabella Corp	\$237,682
Capital Consultants/Design Works	33,850
Crawford Contracting, Inc.	19,500
C & C Johnson & Malhotra PC	9,944
CD Barnes	1,573,104
D & E Excavating	3,854
DLZ Engineering	216,028
McGuirk Sand & Gravel, Inc.	158,178
C.H. Shattuck Builders, LLC	52,523
Robinson Electric	47,203
Soil & Materials Engineers, Inc.	6,574

City of Alma, Michigan
Notes to Financial Statements
June 30, 2006

NOTE 11 – BUILDING PERMIT REVENUES AND RELATED EXPENDITURES

Under Public Act 245 of 1999, permit fees for building construction must be restricted to the operation of the enforcing agency. For the fiscal year ending June 30, 2006, the City of Alma collected \$45,173 in building permit fees. For the same time period, the City expended \$113,321. The City subsidized the construction permit program with \$68,148.

NOTE 12 – OPERATING LEASE AGREEMENTS

The City currently has three operating lease agreements, all located in the State Street Plaza. The Secretary of State rents 2,314 square feet at a rate of \$1,050 per month. Their lease expires September 30, 2009. The Gratiot Health Systems and MMACC Public Access share a building. Gratiot Health Systems rents 4,225 square feet at a rate of \$2,011 per month and their lease expires on September 30, 2006. The MMACC Public Access rents 1,232 square feet at a rate of \$387 per month. Their lease expires on December 31, 2006.

Lease Period End	Cost	Accumulated Depreciation	Carrying Amount	Contingent Rentals for the Period
9/30/2009	\$ 436,611	\$ 265,613	\$ 170,998	\$ 40,950
9/30/2006	66,734	40,642	26,092	6,033
12/31/2006	19,460	12,139	7,321	2,322

NOTE 13 – PERMANENT FUNDS

The City of Alma has two permanent funds that were created by ordinance by the Alma City Commission. The Cemetery Endowment Fund receives half the proceeds from the sale of grave lots. The Library Endowment Fund was created through donations. The creating ordinances permit up to eighty percent of current interest revenue, excluding any gains or losses recorded to adjust investments to market, to be transferred to the designated activity. The Cemetery Endowment Fund earned \$17,118 in investment income in FY2006. Thirteen thousand six hundred dollars was transferred to the General Fund for cemetery operations. The Library Endowment Fund earned \$13,431 in investment income in FY2006. Ten thousand, four hundred dollars was transferred to the Alma Public Library for collection purchases. Transfer of funds was made prior to June 30, 2006.

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

In the General Fund there is a prior year adjustment to previously recorded compensated absences in the amount of \$48,473. In Wastewater Utility there is a prior year adjustment for bond issuance expenses in the amount of \$40,025. In the Alma Public Library component unit there is a prior period adjustment for bond issuance expenses in the amount of \$8,561.

REQUIRED SUPPLEMENTARY INFORMATION

City of Alma
Required Supplementary Information
Municipal Employees Retirement System
Analysis of Funding Progress
1991-2005

Valuation Date Dec. 31	(1) Net Assets Available For Benefits	(2) Accrued Liabilities	(3) Percent Funded (1)/(2)	(4) Unfunded Actuarial Liability (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded UAL As a Percent of Covered Payroll (4)/(5)
1990	\$ 5,427,511	\$ 3,713,822	146%	\$ (1,713,689)	\$ 1,962,327	-87%
1991	6,089,126	4,060,151	150%	(2,028,975)	2,249,280	-90%
1992	6,677,321	4,513,370	148%	(2,163,951)	2,355,879	-92%
1993	7,287,281	6,727,222	108%	(560,059)	2,408,309	-23%
1994	7,766,771	7,094,841	109%	(671,930)	2,527,507	-27%
1995	8,503,110	7,526,432	113%	(976,678)	2,616,806	-37%
1996	9,307,603	8,132,241	114%	(1,175,362)	2,760,915	-43%
1997	10,278,637	8,571,457	120%	(1,707,180)	2,772,509	-62%
1998	11,416,160	9,480,714	120%	(1,935,446)	3,054,918	-63%
1999	12,976,559	10,045,692	129%	(2,930,867)	2,996,120	-98%
2000	13,947,137	11,798,166	118%	(2,148,971)	2,580,827	-83%
2001	14,526,113	12,784,316	114%	(1,741,797)	3,428,095	-51%
2002	14,457,361	13,541,206	107%	(916,155)	3,510,060	-26%
2003	14,988,769	14,174,229	106%	(814,540)	3,557,078	-23%
2004	15,402,864	15,531,838	99%	128,974	3,841,063	3%
2005	15,709,223	15,745,190	100%	35,967	2,912,728	1%

Notes:

(1) Total retired life liabilities are reflected above beginning in 1984. Actuarial assumptions were revised for 1984 and 1987 valuations. In 1993, the City implemented the MERS B-2 plan.

(2) Source: The Report of the Municipal Employees' Retirement System of Michigan Annual Actuarial Valuation as of December 31, 2005 By: Gabriel Roeder Smith & Company

COMBINING AND INDIVIDUAL FUND STATEMENTS AND FINANCIAL SCHEDULES

NON MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are to record the expenditures associated with specific revenues that are legally restricted for specific purposes.

LOCAL STREETS FUND

Activity related to state shared gas and weight tax and grant revenue restricted to the maintenance of local streets has been recorded in the Local Streets Fund.

HOUSING IMPROVEMENT FUND

Federal housing grants were used to make low interest loans to qualifying homeowners. Loan repayments and interest collections are reused for additional housing rehabilitation loans to citizens. Existing loans and new MSHDA grants are accounted for in the Housing Improvement Fund.

PUBLIC SAFETY EMPLOYEES SPECIAL BENEFIT FUND

Donations to and related interest income of the Public Safety Employees Special Benefit Fund are restricted to providing financial assistance to police officers and fire fighters who have suffered total disability or the dependents of those who have been killed in the line of duty while employed by the City.

LAW ENFORCEMENT FUND

This fund is used to account for monies and property confiscated under Federal law during drug law enforcement.

PERMANENT FUNDS

Permanent funds are used to account for endowments where investment income may be used, but principal must remain intact.

CEMETERY ENDOWMENT FUND

This fund is used to account for endowment fees received pursuant to adoption of ordinance 622. Eighty percent of the annual investment income is transferred to General Fund for Riverside Cemetery maintenance.

LIBRARY ENDOWMENT FUND

This fund is used to account for donations received pursuant to adoption of ordinance number 465. Eighty percent of the annual investment income is transferred to Alma Public Library for collection acquisitions.

DEBT SERVICE FUNDS

Debt Service Funds are used to account for the accumulation of resources for payment of general obligation bond principal and interest.

ALMA BUILDING AUTHORITY

The payment of principal and interest on Alma Building Authority issued bonds are accounted for in this fund.

HEATHER/WARWICK GENERAL OBLIGATION BONDS

The City issued general obligation bonds to pay for its portion of the Warwick Drive and Heather Lane projects. This fund accounts for all related debt service activity.

HEATHER/WARWICK SPECIAL ASSESSMENT BONDS FUND

The City issued special assessment bonds with a pledge of full faith and credit of the City to pay for the private portion of the Warwick Drive and Heather Lane extension project. The bonds are repaid with special assessment collections.

CAPITAL PROJECT FUNDS

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by Proprietary Funds and Trust Funds.

PARK CONSTRUCTION PROJECT FUND

The Park Construction Project Fund records the development, improvement, and rehabilitation of City recreation areas. Local and state revenues have financed the current projects.

ONE-WAY STREET CONVERSION PROJECT FUND

The One-Way Street Conversion Project Fund records revenues and expenditures associated with the reconstruction of Superior Street and Center Street to two-way traffic in the central business district.

PINE AVENUE EXTENDED PROJECT FUND

The Pine Avenue Extended Project Fund records the revenues and expenditures associated with the construction of Pine Avenue north of Warwick Drive. The revenues are assessments on developers and transfers from other funds.

ADAMS STREET EXTENDED

The Adams Street Extended fund records the revenues and expenditures associated with construction of Adams Street from Ely Street to Superior Street.

NEIGHBORHOOD STREET MILLAGE

The Neighborhood Street Millage Fund is used to account for activities related to a special voted millage approved by the constituents of Alma for local street maintenance.

City of Alma, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue Funds			
	Local Streets	Housing Improvement	Public Safety Benefit Fund	Law Enforcement
ASSETS				
Cash and cash equivalents	\$ 28,791	\$ 47	\$ 62,771	\$ 15
Investments	178,890	289	390,014	90
Taxes receivable	1,436	-	-	-
Receivables, net	2,236	509	7,165	2
Special assessments receivable	-	-	-	-
Due from other funds	-	-	-	-
Due from other units	27,299	94,235	-	-
Property held for resale	-	127,072	-	-
Prepaid items	-	97	-	-
Total assets	<u>\$ 238,652</u>	<u>\$ 222,249</u>	<u>\$ 459,950</u>	<u>\$ 107</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Current payables	\$ -	\$ 32,655	\$ -	\$ -
Due to other funds	2,455	130,000	-	-
Deferred revenue	1,436	178	-	-
Total liabilities	<u>3,891</u>	<u>162,833</u>	<u>-</u>	<u>-</u>
Fund balances:				
Reserved	-	97	459,950	107
Unreserved	234,761	59,319	-	-
Total fund balances	<u>234,761</u>	<u>59,416</u>	<u>459,950</u>	<u>107</u>
Total liabilities and fund balances	<u>\$ 238,652</u>	<u>\$ 222,249</u>	<u>\$ 459,950</u>	<u>\$ 107</u>